

BYD's \$16 Billion IOU Habit Just Caught Up With It

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Note: the original article is provided as a separate file (attached to the email or downloadable from the website).

1. Reading Passage

In June, BYD — the world's largest electric-vehicle maker — posted a short message on a Chinese messaging app promising to pay its suppliers within 60 days. The pledge sounded routine. It was anything but. For nearly a decade, BYD had financed its rise from obscure electronics-parts maker to Tesla's biggest rival in part by paying suppliers with promissory notes — essentially IOUs — through an in-house platform called Di Lian. Now Beijing was forcing the company to stop, and tens of thousands of suppliers and investors were treating the announcement as a watershed moment.

The results have been dramatic. According to BYD's most recent annual report, the company's total borrowings jumped to Rmb115.4bn (\$16.6bn), up from Rmb28.5bn the year before. First-quarter results showed short-term borrowings climbing another 72% to Rmb66bn by the end of March. BYD's chief executive of overseas expansion, Stella Li, told the Financial Times that the IOU system had become an 'industry standard' but that the company was now resolving the issue. The shift, she acknowledged, reflected a restructuring of liabilities rather than a deeper change in the business.

Here's the catch. For years, BYD's interest-free supplier financing did more than smooth payments — it freed cash for aggressive R&D and overseas expansion. A Chinese technology expert at Beijing research group Gavekal noted that long payment cycles are common in China's auto industry, but BYD's terms were 'particularly aggressive,' with Chinese media reporting that some 10,000 suppliers were waiting more than 300 days to be paid. Now, with Beijing pressuring BYD to pay faster, that hidden subsidy is disappearing. Operating cash flow fell from Rmb133.4bn in 2024 to Rmb59.1bn last year, then to just Rmb2.8bn at the end of March.

Why is Beijing acting now? The crackdown is part of President Xi Jinping's 'fan neijuan,' or anti-involution, campaign — a policy aimed at the risks of destructive industrial overcompetition. BYD's payment system, analysts argue, had become an extreme example: a powerful firm using its leverage to push financial strain down its supply chain. Smaller suppliers reportedly had almost a year of receivables tied up, stretching their end-to-end cash collection cycle past 300 days.

BYD insists concerns over its liabilities are 'unwarranted,' and some analysts agree the company can still raise formal financing at low rates. But independent researchers paint a starker picture. According to GMT Research, a Hong Kong accounting firm that has tracked BYD for years, the company's headline net debt of Rmb22bn obscured the true scale: closer to Rmb320bn once 'de-recognised receivables' and 'excess payables beyond 90 days' were counted. Data from Wind, a Chinese financial-data provider, showed BYD's payment cycle had recently shortened to about 123 days — four days closer to Beijing's 60-day target, but still far above it. Meanwhile, the company is pressing forward globally: building factories in Hungary, Brazil, Indonesia, Thailand, Turkey and Uzbekistan, and launching its own fleet of eight ships to carry its cars overseas. The IOU era is ending, but BYD's ambitions — and its debt — are only growing.

2. Explanation

The world's biggest electric-car maker quietly financed its rise by paying suppliers in IOUs. Then Beijing said: stop. Now BYD's debt is exploding – and the bill is due.

What's Going On?

In June, Chinese EV giant BYD posted a short message on WeChat promising to pay its suppliers within 60 days. That sounds boring – but it ended a system that had quietly bankrolled BYD's rise from obscure battery maker to Tesla's biggest rival.

For years, BYD paid parts makers with promissory notes – essentially IOUs – through an in-house platform called Di Lian. Beijing has now cracked down on that practice as part of its 'anti-involution' campaign, forcing BYD to swap free supplier credit for actual bank loans. Short-term borrowings jumped 72% in a single quarter to roughly Rmb66bn (\$9.2bn).

How To Think About It

BYD wasn't just selling cars. It was also running a giant, unofficial bank – borrowing from its own suppliers at 0% interest. Take that bank away and the real cost of growth shows up on the balance sheet.

- Imagine a restaurant that pays its fish supplier 10 months after serving the sushi. The restaurant looks wildly profitable – until the supplier demands cash up front and the owner has to take out a loan to buy tuna.
- Or think of a kid running a lemonade empire by 'paying' younger siblings in IOUs for lemons. Mom finds out, makes him pay cash, and suddenly his profits look a lot smaller.

Key Things To Know

- BYD's total borrowings rose to about Rmb115.4bn (\$16.6bn), up from Rmb28.5bn the year before – roughly a 4x jump.
- The mechanism: 'supply-chain payment notes' through BYD's Di Lian platform let it stretch payments past 300 days, according to Chinese media reports cited in the article.
- Key player: President Xi Jinping's 'fan neijuan' or anti-involution campaign – a push against destructive industrial overcapacity and price wars.
- Non-obvious consequence: net cash flow from operations collapsed from Rmb133.4bn in 2024 to Rmb59.1bn last year, then to just Rmb2.8bn by the end of March.
- What most people miss: BYD's headline net debt of Rmb22bn massively understated reality. GMT Research estimates real net debt was closer to Rmb320bn once 'de-recognised receivables' and excess payables are counted.

Why It Matters

Every EV in your driveway-of-the-future scenario – whether it's a BYD, Tesla, or a brand that doesn't exist yet – depends on this exact competitive battle. China's price war is reshaping which carmakers survive, which countries dominate green tech, and how cheap your first car might be. If you're

considering a career in engineering, supply-chain management, or finance, this is the kind of accounting story that explains why companies that look unstoppable suddenly aren't.

The Bigger Picture

BYD is now launching an eight-ship overseas export fleet and building factories in Hungary, Brazil, Indonesia, Thailand, Turkey and Uzbekistan — a global expansion funded, in part, by the very supplier squeeze Beijing is now ending. Watch for two second-order effects: smaller Chinese suppliers, many of which had over 300 days of receivables tied up with BYD, may finally get paid (or go bust waiting); and rivals like Xiaomi and Geely face the same anti-involution rules, meaning China's whole EV sector is about to look financially weaker — and possibly more rational — at exactly the moment it's trying to conquer global markets.

3. Key Terms Glossary

Promissory note (IOU)

A written promise to pay a specific amount of money at a later date. Companies use them like delayed checks – useful for the issuer (cash stays in the bank), risky for the receiver (you might not get paid).

Bills payable

Short-term debts a company owes, usually backed by a formal IOU document. Unlike trade payables (regular unpaid invoices), bills payable are more formal but still cheap financing.

Anti-involution (fan neijuan)

A Chinese government campaign against 'involution' – destructive internal competition where firms cut prices and squeeze suppliers so hard that the whole industry shrinks in profit even as it grows in size.

Operating cash flow

The actual cash a company generates from its core business each period. Unlike profit (which includes accounting estimates), cash flow is harder to fudge – which is why analysts watch it closely.

Trade payables

Money a company owes suppliers for goods or services already delivered but not yet paid for. Stretching these out is a free form of short-term financing.

Receivables

Money owed TO a company by its customers. 'De-recognised receivables' are amounts the company has taken off its books – often by selling them to a third party – which can hide the true scale of debt in a supply chain.

Capex

Short for capital expenditure – money spent on long-term physical assets like factories, machinery, or vehicles. Building eight cargo ships and new overseas plants is classic capex.

4. Reading Comprehension Quiz

Circle the best answer for each question.

Q1. The passage most directly argues that:

- A) BYD's overseas expansion has failed because of regulatory pressure from Beijing.
- B) BYD's reliance on supplier IOUs masked the true cost of its rapid growth.
- C) Chinese electric-vehicle makers are losing the global price war to Tesla.
- D) Beijing's anti-involution campaign has successfully ended China's EV overcapacity.

Q2. According to the passage, BYD's short-term borrowings rose sharply because:

- A) The company needed cash to fund acquisitions of European rivals.
- B) Falling overseas sales forced BYD to take on emergency financing.
- C) BYD could no longer delay supplier payments and needed bank credit instead.
- D) Interest rates in China dropped, making borrowing unusually attractive.

Q3. Which choice best states the central idea of the passage?

- A) BYD's transition from IOUs to conventional debt is revealing the true financial health of the world's biggest EV maker.
- B) BYD has overtaken Tesla as the world's largest electric carmaker by aggressively expanding into emerging markets.
- C) Chinese regulators are deliberately undermining BYD to protect smaller domestic suppliers from bankruptcy.
- D) The collapse of BYD's supplier-financing model proves that China's electric-vehicle industry is in terminal decline.

Q4. As used in the passage, the word 'watershed' most nearly means:

- A) Catastrophic and damaging.
- B) Highly profitable and rewarding.
- C) Marking a major turning point.
- D) Related to water management.

Q5. As used in the passage, the phrase 'eased BYD's own cash flow pressure' most nearly suggests that the IOU system:

- A) Reduced BYD's need to hold cash for paying suppliers.
- B) Helped BYD relax its environmental commitments.
- C) Lowered the interest rate BYD paid on its bank loans.
- D) Allowed BYD to comfort suppliers worried about delays.

Q6. Which statement about BYD's reported debt levels can most reasonably be inferred from the passage?

- A) BYD's official financial statements significantly understated its true debt position.
- B) BYD's auditors deliberately concealed the true scale of its borrowings from regulators.
- C) BYD's debt is fully comparable to that of other major global carmakers like Tesla.
- D) BYD's debt levels have always been transparent to investors and suppliers alike.

- Q7.** The passage suggests that the Chinese government's crackdown on supplier IOUs is primarily motivated by:
- A)** A desire to protect foreign automakers operating in China.
 - B)** Concerns about destructive overcompetition in Chinese industry.
 - C)** Pressure from international investors to improve transparency.
 - D)** A long-term strategy to weaken BYD's global market position.
- Q8.** The author's tone when describing BYD's financial disclosures is best characterized as:
- A)** Openly hostile and accusatory.
 - B)** Enthusiastic and admiring of BYD's growth.
 - C)** Skeptical and probing of the company's reported figures.
 - D)** Neutral and entirely detached from any judgment.
- Q9.** It can most reasonably be inferred from the passage that BYD's overseas expansion strategy:
- A)** Is being funded entirely by profits from domestic Chinese sales.
 - B)** Continues despite mounting financial strain at home.
 - C)** Has been temporarily paused due to Beijing's crackdown.
 - D)** Depends on cooperation with European and American carmakers.
- Q10.** Which choice provides the best evidence for the answer to the previous question?
- A)** 'BYD's pledge is now regarded as a watershed moment for the company.'
 - B)** 'BYD is building factories in Hungary, Brazil, Indonesia, Thailand, Turkey and Uzbekistan, as well as launching its own fleet of eight ships.'
 - C)** 'Total borrowings had increased sharply to Rmb115.4bn last year, up from Rmb28.5bn in 2024.'
 - D)** 'BYD told the FT that concerns over its liabilities were unwarranted.'

My Score: _____ / 10

5. Answer Key with Explanations

Q1. The passage most directly argues that:

Answer: B

The passage's central claim is that BYD used interest-free supplier financing to grow cheaply, and that ending this system has exposed the company's real debt levels. D is the main trap – Trap C: the anti-involution campaign is mentioned, but the passage never claims it has 'successfully ended' overcapacity, only that it forced BYD to change. SAT Tip: On central-idea questions, pick the option that captures the whole passage's argument – if an option is true of only one paragraph, it's too narrow.

Q2. According to the passage, BYD's short-term borrowings rose sharply because:

Answer: C

The passage explicitly explains that BYD is moving from promissory notes to 'conventional commercial bank notes and cash,' which required restructuring tens of billions in debt. D is the main trap – Trap C: low interest rates are mentioned as something BYD could access, but they're not given as the reason borrowings surged. SAT Tip: 'According to the passage' questions reward direct textual matching – don't bring in outside reasoning, just find the sentence that names the cause.

Q3. Which choice best states the central idea of the passage?

Answer: A

The passage threads together the IOU system, Beijing's crackdown, the spike in borrowings, and analyst concerns about hidden debt – all pointing to one central idea: BYD's real financial picture is now emerging. D is the main trap – Trap A: it points in the right direction but goes too far ('terminal decline' is not what the passage claims). SAT Tip: Watch for distractors that exaggerate a passage's claim – the right answer is usually more measured than the most dramatic option.

Q4. As used in the passage, the word 'watershed' most nearly means:

Answer: C

In context, BYD's pledge is described as a 'watershed moment' that tens of thousands of suppliers and investors are using to reassess the company – that's a turning point. D is the main trap – Trap B: 'watershed' literally comes from geography (a ridge dividing water flow), but in context it's clearly metaphorical. SAT Tip: On vocab-in-context, substitute each option into the sentence. Only the meaning that preserves the sentence's logic is correct.

Q5. As used in the passage, the phrase 'eased BYD's own cash flow pressure' most nearly suggests that the IOU system:

Answer: A

The phrase appears in context with high R&D spending and supplier financing – meaning BYD kept more cash on hand because it wasn't paying suppliers promptly. D is the main trap – Trap B: it plays on the everyday meaning of 'ease' as 'comfort,' but the passage uses it in the financial sense of reducing pressure. SAT Tip: Phrases with financial vocabulary almost always have a technical meaning in context – resist the everyday-language interpretation.

Q6. Which statement about BYD's reported debt levels can most reasonably be inferred from the passage?

Answer: A

GMT Research's estimate of Rmb320bn in real net debt – versus the headline Rmb22bn – supports the inference that reported figures masked the true picture. B is the main trap – Trap C: while it sounds related, the passage never accuses auditors of deliberate concealment, only that the supplier system 'obscured' debt levels. SAT Tip: On inference questions, the right answer follows logically from the passage; the wrong answers add accusations or claims the passage doesn't actually make.

Q7. The passage suggests that the Chinese government's crackdown on supplier IOUs is primarily motivated by:

Answer: B

The passage links the order to Xi Jinping's 'anti-involution' campaign – a policy against the risks of industrial excess. D is the main trap – Trap A: it's plausible-sounding but reverses the logic; Beijing is championing BYD globally, not weakening it. SAT Tip: When a question asks about motivation or purpose, look for the named policy or campaign in the passage – that's almost always the answer the author endorses.

Q8. The author's tone when describing BYD's financial disclosures is best characterized as:

Answer: C

Phrases like 'obscured the true debt levels,' 'high degree of opacity,' and the contrast between Rmb22bn and Rmb320bn show the author questioning BYD's transparency without crossing into outright accusation. A is the main trap – Trap A: the tone is critical but measured, not hostile. SAT Tip: For tone questions, find the adjectives and framing devices the author chose – calibrated skepticism reads differently from outrage.

Q9. It can most reasonably be inferred from the passage that BYD's overseas expansion strategy:

Answer: B

The passage describes BYD launching a fleet of eight ships and building factories in six countries – even as its cash flow collapses and debt soars. C is the main trap – Trap B: the crackdown is real, but the passage shows expansion accelerating, not pausing. SAT Tip: Inference questions reward holding two ideas at once – here, financial stress AND continued expansion are both happening simultaneously.

Q10. Which choice provides the best evidence for the answer to the previous question?

Answer: B

Option B directly shows BYD's continued global expansion (six countries plus a shipping fleet), which is exactly the inference from question 9. C is the main trap – Trap B: it uses passage vocabulary about debt, but it supports the 'financial strain' half of the inference, not the 'continued expansion' half. SAT Tip: On evidence-pairing questions, identify which half of your previous answer needs proof – then find the line that supports that specific half.