

# The Importance of Working Capital to take Financing and Credit Decisions in the Indian Automobile Sector

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**Abstract** This reader of this paper will get an idea about the importance of working capital and capital financing for an organization. The paper inculcated about the financing of the working capital and capital appraisal with a sheer focus on the automobile sector of India. Qualitative aspect has been used for the purpose of completing the study that based on two top-notch automobile companies in India. From the complete analysis, it is found that working capital is equally essential for the Indian Automobile Sector, and the selected companies (Tata Motors and Suzuki Maruti) should finance their working capital and appraisal of it through the traditional methods such as Debt and Equity.

**Keywords** —Working Capital, Capital Financing, Capital Appraisal, Qualitive, Analysis, Automobile Sector, Organization, Qualatative.

## I. INTRODUCTION

Working Capital has been referred to as the difference between current assets and current liabilities of an organization. It is an essential element that uses by the companies to manage its day to day operations in a positive and valuable manner. In this competitive and fast-paced environment, organizations are required to manage their working capital effectively, because the activity helps them to strengthen their current as well as future directions accordingly.

The factor of Working Capital deems highly significant from the viewpoint of manufacturing organizations, such as an automobile. Therefore, this paper also considers the automobile sector for the analysis of the working capital (Tran, Abbott and Jin Yap, 2017). The assignment requires to identify the importance and implications of the working capital to take effective financing and credit decisions on the Indian Automobile Sector. The Indian Automobile Sector is one of the largest sectors working with the region. The sector has a very strong connection with the economic well-being of the country. There are certain domestic and international automobile companies working within the region of India. Among them, Tata and Suzuki are some of them. The hypothesis of the research is as follows

### *Hypothesis*

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## II. RELATED WORK

The entire field of finance is very broad in nature. Broader in the sense that it prevails some concepts which are essential to managing the financing decisions and other factors to visualise their growth and positioning. Working capital is one of the most significant elements of the Liquidity Management aspect of a company. Liquidity means the ability of a company in meeting with its short term financial promises and obligations (Singh, Kumar and Colombage, 2017). It is also known as visualisation of the short term promises and how the company manages with the same. There are certain ratios that could be used for the purpose of managing the liquidity such as Current Ratio and Quick Ratio.

Current Ratio is a ratio used in the financial analysis that uses by the banks and lenders to visualise the capability of a company in meeting its short term financial obligations. It is a common ratio to analyse the liquidity position of a company. For a better result and effectiveness, the CR of a company should be equivalent to 1:1. It means that the current assets should be equal to the current liabilities to net-off completely its adverse impacts. Bankers and financial institutions only select those companies for the credit purpose which have a higher credit rating and strong liquidity to pay-off their dues in a respective and pre-stipulated time period. It was endorsed that quick ratio is yet another important ratio that comes under the umbrella of working capital management, and inform the company about the effective management of their operations without selling its inventories.

### III. FINANCING OF WORKING CAPITAL AND IT'S APPRAISAL

Working capital is known as the difference between current assets and current liabilities. Therefore, organizations should try to maximise the level of their current assets compared to the current liabilities so that they can easily manage their working capital and operations effectively. Financing of the working capital can be initiated through two different and broader perspectives such as Debt and Equity. Debt that can be accumulated through the bank loan, while equity can be arranged by floating the shares of the company. There are certain studies that idealise the concept of working capital and connected it with the financing and credit-seeking decisions of a company. The study of Caniato et al. (2016) is essential here to include in which the researcher analyse the relationship between the dependent and independent variable through Pearson Correlation. The dependent variable which has been selected here was the financing decision, while the independent variable was the working capital management. Based on the Pearson Correlation, the researcher has found a strong and direct connection between the dependent and independent variable. According to the researcher, when the level of management of the working capital is effective, then the chances are bright for the companies to attain the necessary amount of financing. Seconding the same idea it can be revealed that apart from taking credit and financing from the financial institutions, the strategy of managing working capital is equally favourable to persuade the potential investors to park their investments within a company.

Although, there are certain studies which have been considered in the same horizon, a very few one have been paved in the Indian Automobile Sector. Therefore, this research will try to fill this gap completely with the help of this study, and consider the importance and implication of working capital management for the proper satisfaction of the automobile sector of India.

### IV. METHODOLOGY

The first section to define in the methodology is the research design. It is defined as the design that undertakes by a researcher for the purpose of corroborating the data for the analysis purpose (Konak and Güner, 2016). There are several types available to research methodology. The research design which has been considered here to use is Causal. Causal is a type of research design in which the cause and effect relationship has been visualised accordingly.

After the design, the next factor which has been considered here is Research Methodology. The methodology which has been used here is Qualitative in which the case of Indian Automobile Companies has been

considered for the analysis purpose. There are two different cases have been undertaken of the companies to visualise their position about the working capital management.

### V. RESULT AND DISCUSSION

The first company which has been chosen for the same analysis is Tata Motors. It is one of the largest and strongest automobile companies operating within the region of India. From the analysis of the annual report of Tata Motors, it is found that the capital structure of the company has a high burden of debt, such as 78%, while the remaining 22% is equity. The net working capital figures of Tata moved to 77 Days for the year 2018 compared to 83 days a year before, which is showing that the company becomes efficient in getting the finance and cash from their creditors earlier. However, the company has been managing its current assets and working capital in a professional manner to value everything efficiently and visualise their growth positively. The amount of working capital for Tata Motors was INR 1,248 Million in the year 2018 which was INR 1,150 Million a year earlier. It is higher than 8.5% for the year 2018 compared with the year 2017. There is no contradiction is found in the working capital of the company, because the current assets are higher than the current liabilities. The most important element that covers the current assets of the company is Cash and Cash Equivalent. Tata Motors is working hard to manage the current assets factor of the company that helps them to secure the necessary amount of financing and convince the financial institutions to give the necessary amount of credit to them.

The second company which has been chosen for the same analysis is Maruti Suzuki. It is one of the largest and strongest automobile companies operating within the region of India. In fact, it is a subsidiary of Suzuki Japan. From the analysis of the annual report of the company, it is found that the capital structure of the company is strong that have an equal debt and equity structure which is indeed quite a powerful aspect for them. The working capital of Suzuki Maruti is better than Tata Motors in the year 2018. The working capital moved to 56 days along with the inventory turnover of 33 days. This working capital is better for the company compared to the year 2017, in which the working capital days were near 70. In other words, it can be said that the company started to use their working capital efficiently that started to maximise their potential in the market. The working capital of Maruti Suzuki also increased in the fiscal year 2018 compared to 2017. The working capital of Suzuki Maruti in the financial year 2018 was INR 9,980 Million which was a lower than INR 11,450 Million a year earlier. The company is managing its restrictive covenant factors in a professional manner. There is no contradiction is found in the working capital of the company, because the current assets are higher than the current liabilities. Apart from

getting the necessary amount of financing from the financial institutions, the company is getting the same from its potential shareholders as well, which is again a positive aspect for the company. Based on the same result, the alternative hypothesis can be accepted which is showing that there is a significant connection between working capital management and its impact on the financing and credit decisions for the automobile companies in India.

## VI. CONCLUSION

The assignment requires to identify the importance and implications of the working capital to take effective financing and credit decisions on the Indian Automobile Sector. From this entire assignment, it is found that the Indian Automobile sector is one of the top-notch sectors of the country that contributes efficiently in its financial well-being. From the entire analysis, it is found that proper management of working capital helps the selective companies in managing its financing and also enables them to have the desired capital in a professional manner. It is recommended to the selected companies to use high-profit tactics and techniques in managing their working capital, and change their policies in a timely manner for taking timely actions and decisions accordingly.

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