

**STUDY ON THE INFLUENCE OF FIRM-SPECIFIC AND MACRO-ECONOMIC FACTORS ON  
WORKING CAPITAL REQUIREMENTS OF MANUFACTURING SMEs IN INDIA**

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**ABSTRACT:**

Small and Medium Enterprises (SMEs) are critical to the nation's economy. SMEs in India operate mostly in the unorganized sector and are the source of livelihood for millions of people. The social contribution made by SMEs is even more significant than its economic contribution. Within the SME sector, the small sector serves as a seed-bed for nurturing entrepreneurial talent and originating units to eventually grow into medium and large enterprises. The purpose of this paper is to analyze the effect of macroeconomic factors on working capital requirements of manufacturing SMEs in India. The paper uses two models: a panel data regression model with fixed effect estimations to study the influence of firm specific determinants of Working Capital Requirements (WCR) of Indian manufacturing SMEs while controlling for the GDP growth and credit growth of the economy. On the other hand, a time series model is used to analyze the key macroeconomic determinants in working capital of Indian SMEs. The data utilized in this study includes financial data of 1666 manufacturing SMEs operating in India for the period 2004 to 2018. The overall results of the firm specific determinants of Working Capital Requirements of the Indian manufacturing SMEs while controlling for the macroeconomic factors of GDP growth and credit growth of the economy indicate that the age of the firm, financial leverage and growth in sales of the firm are the key drivers of Working Capital requirements for Indian manufacturing SMEs. Also, the total capital of the firm is found to be positively related to Working Capital requirements for Indian manufacturing SMEs. While on the other hand, the size of the firm is negatively related to its Working Capital requirements and also the macroeconomic variables of GDP growth and credit growth of the economy are negatively related to the Working Capital requirements for Indian manufacturing SMEs in the presence of firm specific factors. The results of the time series model reflect that the GDP growth of the economy is the major driving force of working capital of Indian SMEs. The credit growth of the economy is also positively related to the working capital. Whereas, the interest rate, exchange rate of Indian rupee and the inflation are negatively related to the working capital. This paper investigates the influence of firm specific and macroeconomic factors while it does not take into account the future trends of the economy and the sector. Further research can be done to predict the long term effects of the economy on the sector.