

A Study on the Assessment of Credit Policy for Business Loans and Working Capital Management

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<p>Peer Review Information</p> <p><i>Type: Article</i> <i>Received: 28 March 2026</i> <i>Revised: 26 April 2026</i> <i>Accepted: 11 May 2026</i> <i>Published: 02 June 2026</i></p>	<p style="text-align: center;">Abstract</p> <p>This research examines the evaluation of credit policies related to business loans and working capital financing, with special reference to Axis Bank. This study focuses on the :assessment of credit policy for business loans and working capital financing, with special reference to Axis Bank. The primary problem addressed is how banks evaluate working capital requirements while balancing risk management and business growth in a competitive financial environment. Efficient management of working capital is crucial for maintaining liquidity, ensuring smooth operations, and achieving financial stability. The study employs a descriptive research methodology utilizing secondary data sourced from Axis Bank’s annual reports, Reserve Bank of India guidelines, industry publications, and scholarly literature. Analytical techniques such as ratio analysis, trend analysis, and working capital cycle assessment are applied to evaluate the data and gain insights into credit appraisal practices. The results reveal that Axis Bank implements a systematic credit assessment framework, incorporating analysis of financial statements, cash flows, credit history, and industry benchmarks. Critical parameters, including the current ratio, liquidity position, and repayment capacity, significantly influence the decision-making process. The study emphasizes the significance of technology and data-driven approaches in enhancing operational efficiency and minimizing credit risk. The study establishes that a clearly defined credit policy, coupled with efficient working capital management, is crucial for banks and businesses to maintain financial stability, mitigate risks, and support long-term growth.</p> <p>Keywords: Credit Policy; Business Loans; Working Capital Financing; Credit Assessment; Risk Management; Axis Bank.</p>
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Introduction

Working capital is essential for maintaining the smooth operations and financial stability of business enterprises. It represents the funds required for day-to-day operations such as purchasing raw materials, maintaining inventory, paying wages, and meeting short-term obligations. In the current competitive and rapidly changing business environment, effective working capital management is crucial for maintaining operations and ensuring long-term growth. At the same time, banks play a vital role in supporting businesses by providing timely credit facilities, especially in the form of working capital finance.

This study examines the evaluation of credit policies related to business loans and working capital financing, with special reference to Axis Bank.

- The core research question is: How does a bank evaluate and manage working capital requirements while balancing credit risk and business support?

The study assumes that a well-structured credit policy helps in minimizing risk while ensuring adequate financial assistance to businesses.

The study aims to develop a comprehensive understanding of working capital, evaluate the credit appraisal procedures adopted by the bank, identify the major risk elements considered during the loan approval process, and examine the techniques used to assess the financial health of a firm. Furthermore, the research seeks to highlight the significance of well-structured credit policies in ensuring financial stability and fostering sustainable business growth.

Literature Review

Research studies on working capital management and credit policy underline their significant effect on a company's liquidity position and profitability. Ghosh and Maji (2004) point out that efficient working capital management plays a key role in improving operational performance and profitability within manufacturing firms. Similarly, Narasimhan (2012) identifies key determinants of working capital requirements, such as operational cycles, firm size, and industry characteristics, using quantitative analysis.

Research by Singh and Chawla (2014) examines the impact of credit policies on SMEs, concluding that flexible and borrower-friendly policies enhance cash flow and business performance, while highly rigid policies can limit growth opportunities. Gupta (2011) compares working capital practices across banks and finds that private and foreign banks adopt more advanced and technology-driven approaches than public sector banks. According to Mishra and Sahoo (2013), the use of credit risk evaluation tools such as financial ratios and credit scoring models plays a crucial role in reducing non-performing assets. Additionally, according to Ramana (2015), efficient management of working capital enhances liquidity and profitability in various sectors, with approaches varying across industries. Nevertheless, the majority of research focuses either on profitability or sectoral comparisons, while giving less importance to the actual credit appraisal practices followed by specific banks. This creates a research gap in understanding how banks like Axis Bank integrate financial analysis, risk assessment, and policy frameworks in real-world lending decisions.

Therefore, this study is relevant as it bridges the gap between theory and practice by analyzing Axis Bank's credit policy and working capital financing approach, offering insights into modern banking practices and decision-making processes.

Methodology / Materials & Methods

This study adopts a descriptive research design to examine the credit policy for business loans and working capital financing at Axis Bank. The approach is suitable as it focuses on understanding existing practices, procedures, and frameworks used in credit appraisal and financial decision-making.

The study mainly relies on secondary data, as access to confidential banking information and direct interaction with customers is restricted. The data has been obtained from dependable sources such as the annual reports and financial statements of Axis Bank, guidelines and circulars issued by the Reserve Bank of India, industry reports from CRISIL, Indian Banks' Association, and CARE Ratings, along with academic journals, textbooks, and verified financial websites. These sources offer comprehensive and standardized data for analysis. No direct participants are involved in this study; however, the analysis is centered on business units (borrowers) and banking practices related to working capital assessment. The study utilizes financial documents including balance sheets, income statements, cash flow statements, credit reports, and relevant industry benchmarks.

For the purpose of data analysis, both qualitative and quantitative techniques are utilized. Analytical tools such as ratio analysis (including current ratio and quick ratio), trend analysis, and evaluation of the working capital cycle (Cash Conversion Cycle) are applied to assess liquidity and financial efficiency. In addition, comparisons with industry benchmarks are carried out to evaluate performance. This methodology provides a structured, reliable, and practical understanding of credit policy assessment and working capital management in the banking sector.

Results / Findings

Based on the evaluation of data collected from financial statements and secondary sources, the following key findings on working capital assessment and credit policy are identified:

- Working capital is measured by subtracting current liabilities from current assets. Firms with positive working capital are better equipped to handle short-term liabilities, while negative working capital may signal liquidity challenges..
- Current Ratio in most cases is observed to be above 1, indicating that businesses generally maintain adequate short-term assets to cover liabilities. However, variations exist across industries.
- The Quick Ratio (Acid-Test Ratio) shows that when inventory is excluded, liquidity positions vary significantly, highlighting dependency on stock conversion for cash flow.
- Cash Conversion Cycle (CCC) varies across firms, with shorter cycles indicating faster conversion of inventory and receivables into cash, and longer cycles indicating delayed liquidity.
- Financial statement evaluation reveals that cash flow from operations significantly influences a firm's ability to repay and manage working capital effectively..
- Credit appraisal findings indicate that banks evaluate:
 - Information obtained from balance sheets and income statements
 - Credit history and repayment behavior
 - Existing loan obligations and utilization of credit limits
 - Industry benchmarks and operational metrics (inventory turnover, receivables turnover)
 - The data further indicates that working capital requirements vary depending on factors such as business size, industry type, and the operating cycle

These findings highlight the measurable dimensions of working capital management and credit evaluation without offering interpretation.

Discussion

The results indicate that there is a strong relationship between working capital management and credit policy assessment in determining the financial stability of a firm. The results support the research question by showing that banks evaluate multiple financial and operational parameters—such as liquidity ratios, cash flow position, and credit history—to balance risk and provide adequate financial support. The use of financial ratios, including the current ratio, quick ratio, and cash conversion cycle, highlights how banks analyze short-term liquidity and efficiency before granting loans. The analysis reveals that Axis Bank implements a structured credit appraisal framework, incorporating quantitative measures such as financial ratios and trend analysis along with qualitative factors like industry conditions and borrower behavior. This aligns with prior studies, indicating that effective credit policies play a key role in risk reduction and business growth. At the same time, differences in working capital requirements across industries highlight the need for flexible and industry-specific credit policies.

Although the study provides valuable insights, it is limited by its dependence on secondary data, which may not capture real-time conditions or the perspectives of borrowers. Additionally, the absence of primary data (such as interviews with bank officials or customers) restricts deeper understanding of decision-making processes.

In conclusion, the results are significant in showing that efficient credit policy frameworks play a vital role in managing liquidity, reducing risk, and ensuring sustainable growth in the banking industry.

Conclusion

The findings indicate that working capital management is an essential element of both business functioning and banking finance. Axis Bank's credit policy reflects a balanced method that combines risk assessment with the provision of financial support to firms. The major findings highlight the importance of financial ratios and cash flow analysis, and credit evaluation techniques are essential tools in determining loan eligibility and working capital requirements.

The study emphasizes that a well-structured credit policy not only safeguards banks from potential defaults but also promotes business continuity and economic development. Proper management of working capital ensures that firms achieve liquidity, stable operations, and sustained profitability.

For future research, it is recommended to include primary data through interviews or surveys with banking professionals and borrowers to gain deeper practical insights. Comparative studies across different banks or sectors, along with the influence of digital lending technologies, can further improve the understanding of modern credit policies.

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