

**THE IMPACT OF CORPORATE TAX PLANNING ON CAPITAL STRUCTURE  
DECISIONS IN THE INDIAN AUTOMOBILE INDUSTRY**

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**ABSTRACT :**

This research investigates the impact of tax planning on financing decisions related to capital structure within the Indian automobile industry, focusing on seven leading companies: Tata Motors Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd., Mahindra & Mahindra Ltd., Bajaj Auto Ltd., Hero MotoCorp Ltd., and TVS Motor Co. Ltd., over the financial years 2022-23 and 2023-24. The study examines how tax strategies influence the debt-equity mix, analyzing key financial indicators such as equity, reserves, debt levels, and finance costs. Findings indicate a general trend toward debt reduction among these companies, resulting in lower debt-equity ratios and decreased finance costs, consistent with capital structure theories like Modigliani and Miller's Proposition with Taxes, the Trade-Off Theory, and the Pecking Order Theory. While debt reduction has reduced tax savings from interest, it has enhanced overall financial stability and reduced financial distress. The study provides insights into how these companies balance tax savings with strategic debt management to optimize their capital structure in a dynamic market. However, it is limited to these seven companies and two financial years, which may not capture the broader trends of the entire sector. The research employs qualitative data analysis techniques, including financial ratio interpretation, changes in reserves, and trend analysis, to identify patterns in debt reduction, equity financing, and their impact on tax savings.

**Keywords:** Tax Planning, Capital Structure, Automobile Industry, Financing, Capital Structure Theories, Corporate Finance

**INTRODUCTION :**

The Indian automobile sector is one of the largest and fastest-growing industries globally, contributing significantly to the country's economy. As of 2023, India ranks as the fourth-largest automobile market, with major contributions from both passenger and commercial vehicles. The sector is characterized by a diverse range of players, including both domestic companies such as Tata Motors, Mahindra & Mahindra, and Maruti Suzuki, as well as global giants like Hyundai, Honda, and Toyota, which have established substantial operations in India (Report of India Brand Equity Foundation, 2023). The Indian government recognizes the importance of the automobile sector to the Indian economy. It is currently working on a Automotive Mission Plan 2026 to bring it closer to the global market (Sunitha N., & R, S. 2023).

Indian automobile companies are known for their innovation in low-cost manufacturing, making India a hub for both domestic sales and exports (Vijayaragavan, T. 2015). In the last several years, automobile sector in Indian has seen an incredible growth in sales, production, innovation, and exports. Simultaneously, the Indian car industry has emerged as one of the best industry auto in the world, and also the auto-ancillary sector is poised to assist the automobile sector's expansion. TATA Motors, MRF, and Mahindra & Mahindra's profitability is influenced by sales, production, innovation, and exports, with a strong multiplier impact on the Indian economy (M., & K.Ramasamy, D. 2022). The industry's growth is driven by increasing consumer demand, favorable government policies, and significant investments in research and development. However, the sector also faces challenges such as fluctuating demand, regulatory changes, competition, technology changes, shortened product life cycle, cost, market volatility, operational complexity, risk

management, globalization, and globalization in their supply chain (Patidar, S. 2018).and the shift towards electric vehicles.

Corporate tax planning as a strategy for minimising tax liability by companies has been frequently discussed. Many discoveries have been established by previous academics regarding the determinants of company tax planning. Tax planning is crucial for Indian automobile companies, given the sector's capital-intensive nature and the competitive environment (Mohd Nasir, N.E. et.al, 2023). Effective tax strategies help these companies optimize their capital structure, reduce costs, and enhance profitability, making tax planning an essential aspect of their financial strategy.

The automobile industry is a capital-intensive sector, where companies must make critical decisions regarding the mix of debt and equity to finance their operations. Corporate Tax planning is a crucial aspect of corporate strategy, influencing these decisions by affecting the cost of capital. This study examines how tax planning impacts the capital structure of automobile companies, considering the unique challenges and opportunities faced by firms in this industry.

#### **OBJECTIVES OF STUDY :**

- To examine the impact of corporate tax planning on capital structure decisions.
- To analyze the interplay between tax strategies and capital structure theories in the context of Indian automobile companies.

#### **LITERATURE REVIEW :**

##### ***Capital Structure Theories considering Corporate Taxes***

Capital structure theories explore how firms decide on the mix of debt and equity financing. Several theories incorporate the implications of corporate taxation, as taxes significantly impact a firm's cost of capital and financial decisions.

***Modigliani and Miller (MM) Proposition with Taxes:*** Modigliani and Miller (1963) extended their original theory by incorporating corporate taxes. The MM Proposition I with taxes suggests that because interest payments on debt are tax-deductible, the value of a leveraged firm is higher than that of an unleveraged firm. This tax shield makes debt financing more attractive as it reduces the overall tax burden on the firm, leading to an increase in the firm's value. In essence, firms should use as much debt as possible to maximize their value, given the tax advantage. According to Farrar, D., & Selwyn, L. (1967) Taxes significantly impact corporate financial policies and capital costs, and understanding their impact on investment value is crucial for effective corporate financial policy implementation. In the September 1979 issue of this journal, Bierman and Oldfield [1] demonstrated that the Modigliani-Miller Proposition I, when considering corporate taxes, remains unchanged even in the presence of risky debt. On page 954, they mention that their analysis indicates that the expected returns on debt, unlevered equity, and levered equity are interconnected and determined concurrently through the capital asset pricing equilibrium (Conine, T. 1980). However, a study revealed that, the revised tax model MM approach using levered cost of equity effectively values debt tax shields, yielding an inverted U-shaped firm value function and an optimal capital structure (Kolari, J., & Vélez-Pareja, I. 2010).

***Trade-Off Theory:*** The Trade-Off Theory acknowledges the benefits of the tax shield from debt but also considers the costs associated with high levels of debt, such as financial distress and bankruptcy costs. According to this theory, firms aim to balance the tax benefits of additional debt with the potential costs of financial distress. The optimal capital structure is achieved when the marginal tax shield benefit of debt equals the marginal cost of financial distress. Ai, Frank, and Sanati (2020) discuss the trade-off theory of capital structure, which suggests that corporate leverage is determined by balancing the tax benefits of debt against bankruptcy costs. The theory, developed in the early 1970s, remains a key framework for understanding capital structure despite challenges. It predicts that debt levels increase with higher risk-free interest rates and more generous interest tax deductions but decrease with greater bankruptcy costs. Dynamic models of the theory incorporate both

exogenous and endogenous investments, aligning well with observed firm behaviors. While evidence supports some predictions, establishing causal links between tax rates, bankruptcy codes, and leverage remains challenging. However, Elkamhi, Ericsson, and Parsons (2012) reassess the trade-off theory by comparing the present value of tax benefits against the costs of bankruptcy, which traditionally suggests that firms are under-leveraged due to the dominance of tax benefits. Hence, their study finds that even small financial distress costs, such as a 1–2% annualized rate, incurred before bankruptcy can accumulate to a level that negates the tax advantages, challenging the assumption that firms are under-leveraged. Hackbarth, Hennessy, and Leland (2007) explore the optimal mix and priority of bank and market debt using a trade-off model that highlights banks' unique ability to renegotiate outside of formal bankruptcy. They find that flexible bank debt provides a better balance between tax benefits and bankruptcy costs, though the ease of renegotiation limits its capacity. The optimal debt structure depends on bargaining power during private workouts: weaker firms tend to rely entirely on bank debt, while stronger firms combine bank and market debt, placing bank debt as senior. The trade-off theory thus explains why smaller, younger firms use only bank debt, larger, mature firms use a mix, and why bank debt is often senior. It also aligns with international patterns, showing that countries with softer bankruptcy enforcement favor market debt, while those with tougher enforcement rely more on bank debt.

**Pecking Order Theory:** The Pecking Order Theory, developed by Myers and Majluf (1984), suggests that firms prioritize their sources of financing based on the principle of least effort, or least resistance, in terms of tax implications and other factors. According to this theory, firms prefer to use internal financing first (retained earnings), then debt, and only issue equity as a last resort. This behavior is partly due to the asymmetric information and the tax benefits of debt over equity financing. Bhama, Jain, and Yadav (2017) test the pecking order theory across various industries in India and China, categorizing firms into deficit and surplus groups. The study finds that Indian deficit industries tend to borrow more long-term debt, while Chinese industries prefer short-term debt, with significant debt issuance in Indian construction, metal, and transport, and Chinese electrical and metal sectors. During surplus, the evidence on pecking order behavior is mixed, but results are robust for Indian chemical and ICT industries, and Chinese metal, pharmaceutical, and chemical sectors. Oktavina, Manalu, and Yuniarti (2018) find that Indonesian family firms generally follow the Pecking Order Theory in capital structure decisions, with asset structure positively affecting the debt-to-equity ratio, while growth and size show no significant impact. Risk, however, has a significant negative effect on the debt-to-equity ratio. Bulan and Yan (2009) find that firms in both growth and maturity stages generally adhere to the pecking order theory, with those facing high adverse selection costs doing so more closely. They also reveal that determinants of debt capacity vary by life cycle stage, emphasizing the specificity of financing decisions to a firm's stage.

#### ***Corporate Tax Planning & Capital Structure Decisions***

The relationship between capital structure and corporate tax planning has been extensively studied, focusing on how firms optimize their financing to minimize taxes. As discussed above, Modigliani and Miller (1963) showed that debt's tax-deductible interest creates a tax shield, increasing firm value. This insight led to the Trade-Off Theory, balancing tax benefits of debt against financial distress costs. On the other hand the Pecking Order Theory (Myers & Majluf, 1984) suggests firms prefer debt over equity for its tax advantages. Following recent studies by various authors and researchers explore strategic tax planning and Capital Structure Decisions given their reviews on 'how tax planning is influencing capital structure decisions. According to Azizi, J.; Amirzadeh, T (2024), Tax planning significantly influences the financing of capital structure in the automobile industry, as evidenced by various studies. Research indicates a direct relationship between taxes and debt levels, with financial leverage being a critical factor in tax-related decisions within companies like Iran Khodro in the automobile sector. As per the view of Vinokurov A. et.al. (2020) Tax planning plays a crucial role in managing capital structure. It influences financial risks and management, essential for sustainable development in industries like the automobile sector. Shalini

and Biswas (2017) conducted an empirical study to identify the firm-specific factors influencing capital structure decisions of publicly traded automobile companies in India. The study focused on the top ten 2- and 3-wheeler automobile companies listed on the NSE and BSE, based on market capitalization, and used a multi-regression model with accounting data from 2007 to 2016. The research examined the impact of factors such as tangibility, firm size, liquidity, non-debt tax shield, growth rate, and profitability on the leverage structure of these companies. The findings revealed that all factors except for the non-debt tax shield were statistically significant determinants of the capital structure for the selected companies. Dennis Voeller and Michael Overesch (2010) has expressed the impact of personal and corporate taxation on capital structure choices varies in the automobile industry, affecting financing decisions based on tax benefits of debt and equity. However Byun Ji-yeon and Lim In-seop (2024) given a contradictory statement that, the capital structure in the automobile industry did not directly address the impact of tax planning on financing. Their focus was on determinants like profitability and liquidity.

#### **RESEARCH METHODOLOGY :**

The research methodology for this study involves a qualitative analysis of the financial performance of seven selected Indian automobile companies: Tata Motors Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd., Mahindra & Mahindra Ltd., Bajaj Auto Ltd., Hero MotoCorp Ltd., and TVS Motor Co. Ltd. Secondary data for two financial years, 2022-23 and 2023-24, has been collected from publicly available financial statements, annual reports, and corporate filings. The research is limited to these seven companies and spans two financial years, which may not provide a comprehensive overview of the entire Indian automobile sector or account for longer-term trends. Financial ratios such as the debt-equity ratio and trend analysis are employed to evaluate the corporate tax planning and financial health of these companies, focusing on their capital structure, debt management, and tax-saving strategies. The study employs qualitative data analysis techniques, including the interpretation of financial ratios, changes in reserves, and surplus, alongside trend analysis to identify patterns in debt reduction, equity financing, and the overall impact on tax savings. Limitations include the reliance on secondary data, which may not capture all nuances of internal corporate strategies, and the focus on a limited number of companies over a short period, which restricts the generalizability of findings. Additionally, the study does not consider macroeconomic factors or industry-specific changes that may influence financial strategies. Despite these limitations, the research provides valuable insights into the tax planning practices of these companies and their strategic choices concerning debt and equity financing.

#### **RESULTS AND DISCUSSION :**

In the Indian automobile sector, making optimal capital structure decisions is a critical managerial task that directly impacts shareholder value (Adhegaonkar, V. 2014). As highlighted, the choice between equity and debt financing has profound implications for a company's financial health and tax efficiency. Firms prefer debt financing due to favorable tax treatment of interest expenditures, while investors prefer minimized dividend payments unless returns are commensurately higher on high dividend paying firms (Haugen, R., & Senbet, L. 1986). For instance, interest on debt is tax-deductible under Indian tax laws, whereas dividends on equity shares are not. This makes debt financing an attractive option for reducing taxable income and enhancing after-tax profits, a consideration of significant relevance to capital-intensive industries like the automobile sector. Indian automobile companies, such as Tata Motors and Maruti Suzuki, often face decisions on whether to finance new projects through equity, which increases the cost of capital, or through debt, which, while offering tax benefits, raises the risk of financial distress. The following analysis underscores the importance of balancing these factors to maximize returns and minimize costs, a strategy that is particularly crucial in a competitive and evolving market like the Indian automobile

industry. The study has considered the standalone financial statements of the sample companies for last two financial years, such as 2023-24 and 2022-23.

**Table -1 : Required Data For the Financial Year 2023-24**

**(Rupees in Crores)**

	<b>Tata Motors Ltd.</b>	<b>Ashok Leyland Ltd.</b>	<b>Maruti Suzuki India Ltd.</b>	<b>Mahindra &amp; Mahindra Ltd.</b>	<b>Bajaj Auto Ltd.</b>	<b>Hero Moto Corp. Ltd.</b>	<b>TVS Motor Co. Ltd.</b>
Equity Shares	766.50	293.63	157.20	599.62	279.18	39.98	47.51
Reserve & Surplus	29,374.83	8,516.74	83,824.80	51,378.18	24,581.32	17,900.57	7,683.53
Share Holders Fund / Equity	30141.33	8,810.37	83,982.00	52,276.56	24,860.50	17,986.18	7,731.04
Long-Term Borrowings	5,235.67	1,131.64	0	1,134.86	0.00	0.00	986.91
Short-Term Borrowings	8,535.37	1,122.89	33.10	450.03	834.05	0.00	526.53
Total Borrowings	13771.04	2254.53	33.10	1584.89	834.05	0.00	1513.44
Debt Equity Ratio (X)	0.46	0.26	0.00	0.03	0.03	0.00	0.20
Finance Cost	1705.74	249.44	193.20	138.77	53.50	18.50	181.63
Tax Saving on Interest (Tax @ 30% Approx.)	511.72	74.83	57.96	41.63	16.05	5.55	54.49

**Table -2 : Required Data For the Financial Year 2022-23**

**(Rupees in Crores)**

	<b>Tata Motors Ltd.</b>	<b>Ashok Leyland Ltd.</b>	<b>Maruti Suzuki India Ltd.</b>	<b>Mahindra &amp; Mahindra Ltd.</b>	<b>Bajaj Auto Ltd.</b>	<b>Hero Moto Corp. Ltd.</b>	<b>TVS Motor Co. Ltd.</b>
Equity Shares	766.02	293.61	151.00	599.05	282.96	39.97	47.51
Reserve & Surplus	21,701.37	8,094.32	60,231.00	42,497.35	25,142.90	16,629.49	6,000.34
Share Holders Fund / Equity	22,469.85	8,425.80	60,382.00	43,356.73	25,425.86	16,705.09	6,047.85

Long-Term Borrowings	10,445.70	1,766.23	0	2,331.56	0.00	0.00	1,211.54
Short-Term Borrowings	8,426.74	1,413.87	1,215.80	2,312.17	0.00	0.00	1,033.04
Total Borrowings	18872.44	3180.10	1215.80	4643.73	0.00	0.00	2244.58
Debt Equity Ratio (X)	0.84	0.38	0.02	0.11	0.00	0.00	0.37
Finance Cost	2,047.51	289.09	186.60	272.78	38.48	19.87	140.66
Tax Saving on Interest (Tax @ 30% approx.)	614.25	86.73	55.98	81.83	11.54	5.96	42.20

**Company wise data interpretation:**

**Tata Motors Ltd.** enhanced its financial standing in FY 2023-24, evidenced by a modest increase in equity shares from ₹766.02 crores to ₹766.50 crores, along with a significant growth in reserves and surplus from ₹21,701.37 crores to ₹29,374.83 crores. As a result, the shareholders' equity rose from ₹22,469.85 crores to ₹30,141.33 crores. A key accomplishment for the company was reducing its total borrowings from ₹18,872.44 crores to ₹13,771.04 crores, leading to a considerable reduction in the debt-equity ratio from 0.84 to 0.46. This deliberate decrease in borrowings also lowered finance costs from ₹2,047.51 crores to ₹1,705.74 crores, alongside a corresponding drop in tax savings on interest from ₹614.25 crores to ₹511.72 crores. Therefore, the Tata Motors' debt reduction strategy has positively influenced its financial health by optimizing corporate tax planning.

**Ashok Leyland Ltd.** strengthened its financial position in FY 2023-24, with a slight increase in equity shares from ₹293.61 crores to ₹293.63 crores and a growth in reserves and surplus from ₹8,094.32 crores to ₹8,516.74 crores. This led to an increase in the shareholders' equity from ₹8,425.80 crores to ₹8,810.37 crores. Significantly, the company lowered its total borrowings from ₹3,180.10 crores to ₹2,254.53 crores, bringing down the debt-equity ratio from 0.38 to 0.26. This reduction in debt also resulted in a decrease in finance costs from ₹289.09 crores to ₹249.44 crores, along with a corresponding drop in tax savings on interest from ₹86.73 crores to ₹74.83 crores. Hence, Ashok Leyland's strategy of reducing debt has favorably impacted its financial health by optimizing its approach to corporate tax planning.

**Maruti Suzuki India Ltd.** strengthened its financial position in FY 2023-24. The company's equity shares increased from ₹151.00 Crores to ₹157.20 Crores, while reserve & surplus surged from ₹60,231.00 Crores to ₹83,824.80 Crores. This led to an increase in shareholders fund / equity from ₹60,382.00 Crores to ₹83,982.00 Crores. Notably, the company reduced its total borrowings from ₹1215.80 Crores to a mere ₹33.10 Crores, resulting in a decline in debt-equity ratio from 0.02 to 0.00. Despite this significant debt reduction, the finance cost increased slightly from ₹186.60 Crores to ₹193.20 Crores. However, the tax savings on interest remained marginally higher, increasing from ₹55.98 Crores to ₹57.96 Crores. With minimal debt, Maruti Suzuki's tax savings on interest are also minimal, focusing more on equity financing. Maruti Suzuki significantly reduced its debt, nearly eliminating it, which is reflected in the debt-equity ratio dropping to zero. Despite this, the finance cost increased slightly, which is unusual given the debt reduction, but tax savings on interest remained marginally higher.

**Mahindra & Mahindra Ltd.** improved its financial standing in FY 2023-24 by significantly cutting its borrowings, which reduced finance costs from ₹272.78 crores to ₹138.77 crores. Consequently,

the company's tax savings on interest also dropped from ₹81.83 crores to ₹41.63 crores. The debt-equity ratio fell from 0.11 to 0.03, highlighting a shift towards a more conservative debt strategy. Additionally, the company's reserves increased from ₹42,497.35 crores to ₹51,378.18 crores, reinforcing its equity base and reflecting a reduced dependence on debt. These actions indicate that Mahindra & Mahindra's approach to minimizing debt has not only lowered interest expenses but also strengthened its financial position through effective corporate tax planning. Mahindra & Mahindra's strategic reduction in debt has enhanced its financial health by lowering finance costs, reducing tax savings on interest, and building a stronger equity base.

**Bajaj Auto Ltd.** pursued a conservative financial approach in FY 2023-24, maintaining a low debt-equity ratio of 0.03, which indicates minimal dependence on debt financing. Despite its low debt levels, the company's tax savings on interest rose from ₹11.54 crores to ₹16.05 crores. Although there was a slight decrease in reserves from ₹25,142.90 crores to ₹24,581.32 crores, Bajaj Auto's equity base remained strong. This strategy of prudent financial management and careful corporate tax planning has played a key role in sustaining the company's solid financial position. Bajaj Auto Ltd.'s strategy of maintaining minimal debt while optimizing tax savings on interest has strengthened its financial stability, underscoring the effectiveness of its conservative financial management and corporate tax planning.

**Hero MotoCorp Ltd.** maintained its debt-free approach in FY 2023-24, keeping a debt-equity ratio of 0.00, which reflects its strategy of avoiding borrowings. This disciplined financial stance led to a slight reduction in tax savings on interest from ₹5.96 crores to ₹5.55 crores. Despite having minimal debt, the company's reserves increased from ₹16,629.49 crores to ₹17,900.57 crores, demonstrating a solid financial foundation. This careful corporate tax planning, along with a disciplined financial approach, has supported Hero MotoCorp's strong financial position. Hero MotoCorp's commitment to a debt-free strategy and prudent management of reserves has reinforced its financial stability, showing that minimal reliance on debt and disciplined tax planning can effectively support a robust financial position.

**TVS Motor Co. Ltd.** enhanced its financial position in FY 2023-24 by moderately reducing its debt-equity ratio from 0.37 to 0.20, reflecting a balanced approach to debt management. This adjustment resulted in a slight increase in finance costs from ₹140.66 crores to ₹181.63 crores, which in turn led to higher tax savings on interest, rising from ₹42.20 crores to ₹54.49 crores. The company's reserves also grew from ₹6,000.34 crores to ₹7,683.53 crores, indicating strengthened financial stability. TVS Motor's strategic corporate tax planning and careful management of debt have contributed positively to its overall financial health. TVS Motor's strategy of maintaining a balanced debt level, alongside effective corporate tax planning, has improved its financial stability by optimizing tax savings and increasing reserves, showcasing the benefits of a moderate approach to debt management.

#### **DATA INTERPRETATION AS PER CAPITAL STRUCTURE THEORIES :**

**Modigliani and Miller (MM) Proposition with Taxes:** Modigliani and Miller's 1963 extension of their original theory introduced the impact of corporate taxes on capital structure. In essence, companies are incentivized to use debt to maximize value through tax savings. However, recent data from various companies show a trend of reduced debt, which in turn diminishes these tax shield benefits. For example, Tata Motors' debt-equity ratio fell from 0.84 in FY 2022-23 to 0.46 in FY 2023-24, resulting in decreased tax savings from ₹614.25 crores to ₹511.72 crores. Similarly, Ashok Leyland's ratio dropped from 0.38 to 0.26, reducing tax savings from ₹86.73 crores to ₹74.83 crores. Maruti Suzuki, with almost no debt, missed out on potential tax shields entirely. Mahindra & Mahindra also saw a significant reduction in debt, which lowered their tax savings, while companies like Bajaj Auto and Hero MotoCorp, with very low or no debt, similarly forgo substantial tax benefits. These trends highlight that while leveraging debt can offer tax advantages, a reduction in debt also means a reduction in these potential benefits, directly impacting the firm's overall value as per the MM Proposition.

**Trade-Off Theory:** The Trade-Off Theory acknowledges the benefits of the tax shield provided by debt but also takes into account the costs associated with high levels of debt, such as financial distress and bankruptcy. According to this theory, firms aim to find a balance between the tax advantages of additional debt and the potential costs of financial distress. The optimal capital structure is achieved when the marginal benefit from the tax shield of debt equals the marginal cost of financial distress.

Tata Motors seems to be moving towards this optimal capital structure by reducing its debt levels, likely to mitigate financial distress risks, even if it means sacrificing some tax benefits. Similarly, Ashok Leyland's significant reduction in borrowings aligns with the trade-off theory, aiming to minimize financial distress while still benefiting from tax shields. Maruti Suzuki's strategy of avoiding debt altogether suggests a focus on minimizing financial distress risks, despite the lost tax benefits. Mahindra & Mahindra's sharp reduction in debt, as well as the low debt levels of Bajaj Auto and Hero MotoCorp, reflect a preference for avoiding financial instability, consistent with the trade-off theory. TVS Motors, on the other hand, appears to balance its debt levels to maximize tax benefits while keeping financial distress at bay, demonstrating an application of the trade-off theory in maintaining an optimal capital structure.

**Pecking Order Theory:** The Pecking Order Theory, developed by Myers and Majluf (1984), posits that firms prioritize their sources of financing based on ease and cost, preferring internal financing first (retained earnings), followed by debt, and resorting to equity issuance only as a last option. This approach is driven by the desire to minimize tax implications and the effects of asymmetric information. Consistent with this theory, Tata Motors' increase in reserves and surplus indicates a reliance on internal financing. Similarly, Ashok Leyland's growing reserves suggest a preference for using retained earnings to fund operations and investments. Maruti Suzuki, with high reserves and almost no debt, reflects a strong adherence to this theory by relying heavily on internal funds. Mahindra & Mahindra's growth in reserves also aligns with the pecking order theory, showing a reluctance to take on new debt. Likewise, Bajaj Auto's steady increase in reserves further supports the theory, demonstrating a clear preference for internal financing over external debt or equity.

## **KEY FINDINGS :**

### ***From Company wise Data Interpretation***

**Debt Management:** Most companies showed a trend of reducing their borrowings, leading to lower finance costs and, consequently, lower tax savings on interest. This trend indicates a strategic shift towards deleveraging and improving financial stability.

**Equity Financing:** Maruti Suzuki and Hero MotoCorp, in particular, have maintained minimal to no debt, focusing on equity financing, which limits their tax savings but strengthens their balance sheet.

**Reserves & Surplus:** Across the board, companies have generally seen an increase in reserves and surplus, indicating better financial health and the ability to withstand market fluctuations.

**Corporate Tax Planning:** The overall tax savings on interest have decreased for most companies, reflecting their strategies to reduce debt. This reduction in tax savings could be seen as a trade-off for improving their overall financial position by lowering their dependency on borrowed funds.

### ***From the Capital Structure Theories based Data Interpretation***

**MM Proposition with Taxes:** Companies with lower debt, like Maruti Suzuki, Hero MotoCorp, and Bajaj Auto, do not maximize the tax shield benefits from debt. In contrast, Tata Motors and Ashok Leyland, though reducing debt, still gain some tax shield.

**Trade-Off Theory:** Most companies seem to be moving towards a lower debt structure to avoid financial distress, potentially sacrificing some tax benefits. This is evident from the general trend of reducing borrowings and finance costs.

**Pecking Order Theory:** Companies generally prefer internal financing over external debt, as seen in the consistent increase in reserves and minimal debt levels across the companies, especially Maruti Suzuki and Hero MotoCorp.

### **Corporate Tax Planning Strategies**

**Tata Motors:** The increase in reserves and surplus suggests a reliance on internal financing, aligning with the pecking order theory, which prioritizes the use of internal funds over external debt or equity.

**Ashok Leyland:** The company's lower debt levels and finance costs have reduced its tax shield, which could be a deliberate strategy to trade off tax savings for enhanced financial stability.

**Maruti Suzuki:** By focusing on equity financing, Maruti Suzuki minimizes tax savings from interest, indicating a strategic choice to prioritize financial stability over tax planning through debt.

**Mahindra & Mahindra:** The company's strategy has led to reduced tax savings on interest, suggesting a shift toward a more conservative approach to tax planning by minimizing debt.

**Bajaj Auto:** The company's low debt levels result in minimal tax savings from interest, reflecting a conservative approach to capital structure and tax planning.

**Hero MotoCorp:** With no debt, Hero MotoCorp does not benefit from interest-related tax savings, indicating a preference for maintaining a debt-free balance sheet over leveraging tax benefits.

**TVS Motor:** The company maintains a moderate tax shield from its debt, reflecting a balanced approach to capital structure and tax planning.

### **CONCLUSIONS & SUGGESTIONS:**

The study concludes that tax planning significantly impacts the capital structure of automobile companies. The findings support the relevance of the Trade-Off and Pecking Order theories in the automobile industry, where firms actively use tax planning to optimize their capital structure. The financial analysis of Tata Motors, Ashok Leyland, Maruti Suzuki, Mahindra & Mahindra, Bajaj Auto, Hero MotoCorp, and TVS Motor for the financial years 2022-23 and 2023-24 highlights a common trend towards reducing debt and strengthening equity. Most companies have increased their reserves and surplus, reflecting a preference for internal financing over external borrowing, consistent with the Pecking Order Theory. This shift has led to lower finance costs and reduced tax savings from interest, as companies trade off potential tax benefits for enhanced financial stability. Companies like Maruti Suzuki and Hero MotoCorp, which have minimized or eliminated debt, have prioritized financial stability over maximizing tax shields. Overall, the strategies adopted by these companies align with conservative financial management, aiming to reduce financial distress risks and maintain robust balance sheets.

#### **Suggestions:**

- a. **Optimize Debt Levels for Tax Efficiency:** Companies should consider optimizing their debt levels to strike a balance between financial stability and tax efficiency. While reducing debt enhances financial stability, maintaining a moderate level of debt could provide valuable tax savings without significantly increasing financial distress risks.
- b. **Leverage Internal Financing:** Continue to prioritize internal financing, as seen in the increase in reserves and surplus across the companies. This strategy reduces reliance on external borrowing and strengthens the balance sheet, providing a buffer against market fluctuations.
- c. **Strategic Debt Management:** For companies with minimal debt, such as Maruti Suzuki and Hero MotoCorp, consider strategic short-term borrowing during periods of low-interest rates to enhance tax savings while maintaining overall financial stability. This approach could provide additional funds for investment without compromising the company's conservative financial policy.

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