Working capital management

Finance

Free cash Flow Nissan Motor Company: addressing free cash flow The free cash flow of a company is the net cash flow available with the company after meeting the capital expenditures for purchase of assets from the cash flows obtained from its operations. Nissan Motor Company which faced a situation of crisis due to the fluctuation of the economic conditions, exchange rates and stock prices took up the management of free cash flows in order to pursue opportunities for future growth. After passing through the situation of demand crisis in the automobile markets, the company has been effective managing its free cash flows for sustainable operations. The company has a policy of maintaining a strong balance sheet and free cash flows on a sustainable basis to become free from shot term debts and strengthen the position of liquidity. As on 2011, Nissan Motor Company achieved a positive free cash flow of 379. 5 billion Yen (Nissan Motor Co. Ltd, 2013). The company uses its free cash flow for repurchasing stocks in order to increase the available capital with the company. According to the market demand, Nissan Motor Company also uses the free cash flows to investment in assets like factories, equipments, operational infrastructure and also decides to allocate a part to the shareholders as long term plans for raising capital. The use of free cash flows helps Nissan Motor Company to meet short term expenses without incurring current liability. The use of free cash flows by the company influences the approach of capital structure decisions. Nissan Motor Company reduces the debt capital and focuses on increasing the equity capital in its capital structure model. The theory of Capital Structure proposed by Miller and Modigliani is applicable in such wide number of scenarios where the companies should adopt a balance between the debt and equity capital for raising finds in order to maintain an optimal cost of

capital (Pratt, 2003).

References

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