

**WORKING CAPITAL MANAGEMENT OF SELECTED  
PHARMACEUTICAL COMPANIES IN INDIA**

**Synopsis**

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In the present day context of rising capital cost and scarce funds, the importance of working capital needs special emphasis. It has been widely accepted that the profitability of a business concern likely depends upon the manner in which working capital is managed. On the other hand, proper management of working capital leads to a material savings and ensures financial returns at the optimum level even on the minimum level of capital employed. We also know that both excessive and inadequate working capital is harmful to a firm. There are many instances of a business failure for inadequate working capital. Further working capital has to play a vital role to keep pace with the scientific and technological developments that are taking place in the concerned area of pharmaceutical industry. On study it is found that the pharmaceutical companies are maintaining current assets at a level which is eight times of its current liabilities on an average. It is also observed that fifty percent of the total assets, on an average, were invested in current assets. Inventory and debtors are the major components of working capital in terms of value of the pharmaceutical companies in India. Under the circumstances, if new ideas, methods and techniques are not been injected or brought into practice for want of working capital, the companies certainly not able to face competition and survive. In this context working capital management has a special relevance and a thorough investigation regarding working capital practice in the pharmaceutical industry is of utmost importance. An attempt has therefore been made to undertake an in depth study on working capital management of selected pharmaceutical companies in India.

While making the present study it has been attempted to consider the significant pharmaceutical companies belonging to the pharmaceutical industry in India. Component wise analysis, trend analysis of different component of working capital, growth of different component of working capital, working capital financing risk and working capital leverage, Principal component analysis to identify the major components which are responsible for changing liquidity, profitability and efficiency had been considered as

these had been omitted in most of the articles. After a thorough study, the following results had been obtained:

- The amount of all the components of working capital like amount of inventory, debtors, cash and bank, loans and advances, creditors, current liabilities and provision, gross working capital as well as net working capital had significantly increased at decreasing rate.
- The selected pharmaceutical companies had been maintaining their current ratio, quick ratio at higher level and absolute liquid ratio at a lower level.
- Inventory holding period, credit allowing period to its customer, cash turnover ratio, was high as compared to industry average.
- Working capital turnover ratios (in times) of 55% (eleven out of twenty) of the selected companies were below the average of the selected companies.
- The average creditors turnover ratio of half (ten out of twenty) of the selected companies were below the average of the selected samples.
- In most of the cases (fourteen out of twenty), the average gross profit ratios of the selected companies were above the average of the selected companies.
- The average net profits of half of the selected companies were below the average of the selected companies. 50% of the selected companies, the average net profit ratios were negative and in remaining 50% cases, the net profit ratios were positive.
- In most of the selected companies (fourteen out of twenty), the average ROCE were above the average of the selected samples during the study period.
- In half of selected companies ( ten out of twenty), the average CATA, Inventory to Current Assets, Debtors to Current Assets & Cash and bank to Current Assets were above the average of the selected companies.
- Forty percent of the average of loans and advances were below the average of the selected samples.
- Seventy five percent of the selected companies, the creditors to current assets were above the average of selected companies.

- The average working capital leverage of twelve selected companies were above the average of the selected companies and these companies were taking high risky with a high return.
- The average working capital financing risks of fifteen selected companies were above the average of total samples.
- The Motaal comprehensive liquidity test exhibited that in 70% of the cases (fourteen cases out of twenty), the liquidity followed an increasing trend during the study period.
- Principal component analysis stated that CR was the principal component of liquidity, Gross profit ratio was the principal component of profitability and Inventory turnover ratio was the principal component of efficiency.

**The results of regression** of GP on CR it is seen that out of total 14 companies under study, 10 companies earned profit and 4 incurred loss almost during the entire period. Loss making companies are found to maintain, on an average, relatively lower current ratio than the profit –making companies. So far as the relation between the gross profit and inventory turn-over ratio is concerned, some baffling results come out. It can be concluded that, in addition to the inventory management problem, there might be some other factors in the group of the liquidity measures that might have outweighed the gain accruing from high inventory turnover ratio.

Therefore, in conclusion, it can be stated that the amount of gross working capital as well as net working capital of all the selected companies are increasing at a decreasing rate during the period under study. The selected companies had been generating about 42% of the total working capital, on an average, from long term sources of fund in order to finance for working capital during the study period. The liquidity trends in most of the selected companies were increasing during the recent years of the study. Amount of investment in the entire component of working capital like, inventories, debtors, cash and bank, loans and advances of all the selected companies were increasing in the recent years during the period under study. The selected companies had invested about 48% on an average, in current assets out of the total assets. The principal component of working capital comprises of inventories and sundry debtors. Most of the pharmaceutical

companies have little amount of cash and bank invested in working capital. Moreover, Pharmaceutical Industry in our country is a profitable sector. It is due to the reason that the firms in the industry are very competitive and has gained efficiency in managing its resources competently. The impact of overall working capital policy on profitability in this industry is proved to be significant and the ratios related to working capital can explain the differences among the firms and it is also evident that overall performance of this industry, working capital plays a vital role.

From the above analysis the following suggestion could be made for maintaining the optimum level of working capital.

1. The selected samples should try to maintain a definite proportion among different component of working capital in regard to keep overall current assets and adequate quantum of liquidity all the times.
2. The selected samples should maintain considerable amount of cash and bank balance in order to meet its short term commitments and for emergency requirement. This will help the company to increase its margin of working capital and also to make adequate arrangement of credit facilities with banks so as to maintain good amount of liquidity.
3. Operating cycle period should have to be decreased in order to avoid cash blocked for a longer period and it will enhance operating efficiency of the selected samples.
4. Creditors turnover ratio found to be significant inverse relationship during the study period. It suggested that the selected samples need to increase credit facilities period from their suppliers.

Size of the samples, basis of sampling, avoidance of qualitative analysis, dependency on secondary data, usual limitation of the statistical tools were the major limitations of the study

A further study may be carried out in future by a larger sample of selecting fifty or more companies, or comparative study between Indian and abroad based pharmaceutical companies or comparative study among the companies in different industries in India