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ANNEXURE 2 – ARTICLE

A STUDY ON WORKING CAPITAL MANAGEMENT OF CIPLA PHARMACEUTICAL COMPANY

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ABSTRACT

This paper has based on a study on working capital management of financial performance of Cipla pharmaceutical limited. Accounting ratios helped to analyze the financial position of a company. The financial analysis aids to evaluate the financial health of a firm. The efficiency of working capital management can be measured using ratio analysis. Accounting ratios are intended for some years which demonstrates the changes. Ratio analysis is a useful tool for various stakeholders like management, financiers, shareholders, creditors, etc. To analyze the financial performance of Cipla pharmaceutical, accounting ratios are used. This project is done with the Secondary data used from the Published Annual Reports and the journals of the company for the period 2016-17 to 2020-21.

Keywords:* *Working capital management, Pharmaceutical company, Ratio, Financial performance, Annual reports.

I. INTRODUCTION

Capital is the requirement to commence a business. Working capital is the lifeblood of an enterprise. Just as the circulation of blood is essential in the human body for maintaining life, working capital is essential to maintain the smooth running of the business. It is categorized into two fixed and fluctuating capital. Fluctuating capital is also called working capital. Working capital is a part of total capital which is invested in current assets. This is the simplified form of capital of a company. Fixed capital is used for the purchase of fixed assets like land, building, machinery, etc which cannot be separated from the business. In simple terms, J.M. Mill defined working capital as, “The sum of the current assets is the working capital of the business”.

WORKING CAPITAL MANAGEMENT

It is a method intended to understand that a company operates efficiently by monitoring using its current assets and liabilities to effectively maintain adequate cash flows to meet its short-term operating costs and debt requirements. The efficiency of working capital management is identified by the ratio analysis. This helps to maintain the smooth operation of the net operating cycle, also known as the cash conversion cycle, and the company's cash flow management and earnings quality.

CLASSIFICATION OF WORKING CAPITAL

1. Permanent working capital: It is also known as fixed working capital. It is that minimum amount that should always be present in the business to carry out the activities without any interruption. If this minimum amount is not available, then the circulation of the capital will be blocked. If a business grows, the requirement for working capital also increases. In the absence of such capital, the business may run the risk of insolvency or liquidation as the flow of regular operations will be interrupted due to the blocking of circulating capital.

2. Temporary working capital: Working capital over and above the fixed working capital would be termed temporary working capital. This is required to meet the seasonal demands of busy periods at stated intervals (i.e.) when the demand for the product increases, more funds will be needed to purchase additional raw material, hire more labor, and meet the basics of minimum cash balance as warranted by the changed circumstances. As the requirement varies according to the needs shown by the demand for the product. Additional working capital is required to meet extraordinary needs or contingencies. For example, events such as strikes, fire, unexpected competition, and rising price tendencies will require such capital.

COMPONENTS OF WORKING CAPITAL

1) Trade Receivables: This is a part of the current assets. It includes the due amount to be paid to the bills of exchange or receivable. It is the amount in which the business is owned by its customers. A receivables management ensures timely collection and avoidance of bad debts. A more extended trade receivable period will result in a delayed collection of cash, impacting the cash conversion cycle of the business. It is important to check the receivables turnover ratio while evaluating a business to understand the working capital management efficiency in the collection of payments for credit sales undertaken by the business and to originate bad debts incurred by the business.

2) Trade Payable: This is a part of current liabilities. It includes the amount due to be paid to the bills of exchange or payables. It is the amount that the business has to pay for credit purchases made. A payables management ensures timely payment to vendors and creditors. If a business has a short trade payable cycle, it will have to keep more cash in hand, resulting in longer trade cash conversion cycles and more interest costs. A more extended trade payable period will result in businesses making payments to their sellers after long periods. It is important to check the payable turnover ratio while evaluating the business to understand the working capital management efficiency and timely payments by the business to its creditors.

3) Inventory: This is a part of current assets. It is an important component of working capital management. It is responsible for proper control over inventory from the raw material to the finished goods. This begins with inventory control and involves the timely purchase, proper storage, and efficient utilization to maintain the flow of finished goods to meet timely by the business and at the same time avoid excess working capital in holding inventory as that will result in a delay in cash conversion cycle and also increase the risk of uselessness and increase working capital requirement which impacts the profitability of the business.

4) Cash and Bank Balance: Cash is an essential component of current assets and cash involves not just cash only but also liquid securities which can be easily converted into cash. Proper Cash Management ensures keeping the working capital cycle in order and also enables the business to manage its operating cycle. The efficiency of the business is determined by the amount of cash flow to the firm it generates. The proper utilization of cash ensures businesses gather trade discounts and improve the cash conversion cycle, which is a critical measure to analyze the working capital cycle of any business.

IMPORTANCE OF WORKING CAPITAL

a) Ability to face the crisis: Working capital enables a business concern to face business crises during emergencies because, during such periods, there will be much pressure on working capital.

b) Cash discount: A business with adequate working capital can benefit from cash discounts allowed by suppliers for prompt and regular payments. It will result in reducing the cost of production.

c) Creation of goodwill: Adequate working capital makes possible prompt payment to suppliers, regular pay to workers, and a steady rate of dividend to shareholders. These factors help in creating sound and goodwill for the concern.

d) No sorrow in sales: A business, with adequate working, is not much affected by a fall in the demand for its goods in the market or by delay in payments by its credit customers. It can afford to wait till the money is collected from customers. It does not have to sell its stocks at off-the-cuff prices to realize the money spent on production.

f) High return on investments: Working capital facilitates continuous production and effective utilization of fixed assets and so the company will be able to generate more profits and ensure higher returns to its owners.

e) Easy loans: A company with adequate working capital and with high short-term solvency can arrange loans from banks and others on easy and favorable terms.

INDUSTRY PROFILE

PHARMACEUTICAL INDUSTRY

The pharmaceutical industry discovers develops, produces, and markets drugs that are used for medications and are administered to patients by doctors to cure them, vaccinate them or lighten symptoms. It deals with medications and medical devices. India is the world's third-largest provider of medicines with a 20% share of total global pharmaceutical exports and also the biggest vaccine supplier in the world accounting for 50% of all vaccines manufactured within the world.

COMPANY PROFILE

CIPLA LTD

Chemical Industrial and Pharmaceutical Laboratories (Cipla) Limited is an Indian multinational company, headquartered in Mumbai, India. It develops medicines to treat respiratory, cardiac disease, arthritis or swelling, diabetes, weight control and depression, and other medical conditions. It also offered medicines for HIV at a little cost.

AWARDS

- In 1980, Cipla won Chemical Award for Excellence for exports.
- In 2006, Cipla won the Dun & Bradstreet American Express Corporate Awards.
- In 2007, Cipla was included within the 200'Best under a billion' list of small Asian companies.
- In 2012, Cipla received the Thomson Reuters India Innovation Award.
- In 2015, research was conducted by BlueBytes where Cipla stood third among India's Most reputed pharmaceutical brands.

II. REVIEW OF LITERATURE

Divya P. Solanki (2017) "Most of the existing studies reveal with different measurement technique to analyze financial performance is yet to develop. The different researchers have done the research with different industries as well different methods and with different factors which are related to working capital management and profitability of the corporate area".

Saravanan, Palanisamy, Subir (2018) "It is important to know the consequences of poor WCM of a company The immediate action is authoritative so that the working capital of the firms can be improved.".

Priyanka Verma (2019) "Working capital practices used by the listed Indian companies are similar to those used by most listed companies in other major markets. It was found that companies that operate in fast-moving goods sectors often have shorter inventory compared to companies in slow-moving goods".

Suhail Alnuaimi & Haitham Nobanee (2020) "Working capital is the assets that are detained by the company to guarantee its day-to-day activities are well met, and its goals are well accomplished. It evaluates how these working capitals can be well managed and what is the importance of their management".

Alvarez, Sensini, and Vazquez (2020) "Working capital management is even more important in developing economies, where the unstable conditions of the financial markets and uncertainties linked to the economic situation led to severe turmoil and general price instability".

Aduda and Morgan (2020) "Working capital orders the liquidity position of the company and can thus be used as a separation for performance sustainability across different sections. The company managing its working capital effectively tends to outshine its peers in profitability and sustainability hence getting a positive review in the capital market".

Minhas, Ahsan, and Umar Draz (2019) "WCM is a lively concept. The financial managers need to regulate the WCM practices in response to the environment. The company must try to reach an optimal working capital level to boost financial performance".

III. MATERIALS AND METHODS

a) RESEARCH DESIGN

This project is made up of an Analytical research design. Analytical research is used when the researcher has to use information that is already available and analyze those to make the critical calculation of the materials gathered.

b) OBJECTIVES OF RESEARCH

i) To study the financial position of the company.

ii) To know the liquidity position of the company with the help of ratio analysis.

iii) To understand the impact of the working capital on the profitability of Cipla limited.

iv) To compare the financial performance with the previous years.

v) To present a summary of the study and suggestions if necessary.

c) DATA COLLECTION

- SECONDARY DATA – This research principally supported the secondary data. the information utilized in this research is collected from the annual report of Cipla Ltd, textbooks, relevant journals, reports, magazines, and also the company's website.

d) RESEARCH FRAMEWORK

As the project is done with the help of secondary data, the period of the study for the project is from 20216-2017 to 2020-2021. The Ratio analysis tool is adapted to analyze the calculations of working capital management of Cipla Ltd.

e) LIMITATION

a) This study mainly depends on secondary data i.e., the balance sheet of Cipla limited.

b) The analysis and suggestion depend on the financial statements and reports, provided by the company.

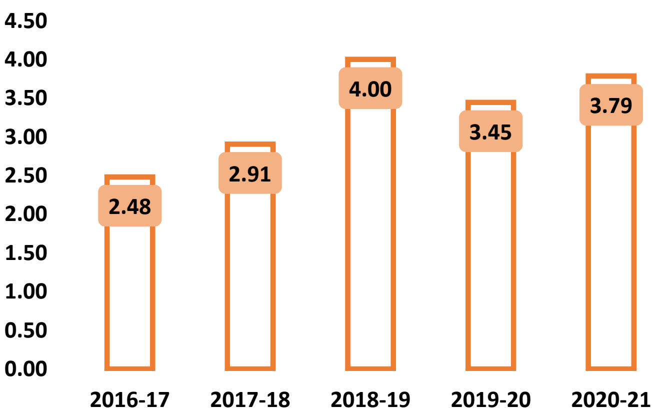
c) The study does not consider the time value of money. The analysis is made from a selected five-year period of the company's balance sheet.

IV. DATA ANALYSIS

TABLE 1: Current ratio

S. NO	YEAR	RATIO
1	2016-17	2.48
2	2017-18	2.91
3	2018-19	4.00
4	2019-20	3.45
5	2020-21	3.79

FIG 1: Current ratio

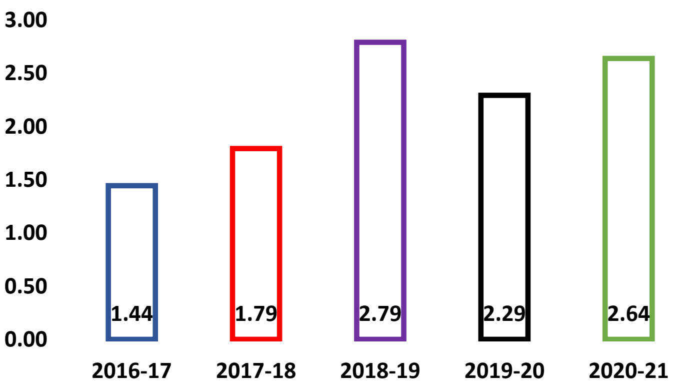


The study inferred that the current ratio is ideal and good from the year 2016-17 to 2017-18 and it was higher i.e., 4:1 during the year 2018-19 and decreased to 3.45 during 2019-20 and improved to 3.8 during the year 2020-21.

TABLE 2: Liquid ratio

S. NO	YEAR	RATIO
1	2016-17	1.44
2	2017-18	1.79
3	2018-19	2.79
4	2019-20	2.29
5	2020-21	2.64

FIG 2: Liquid ratio

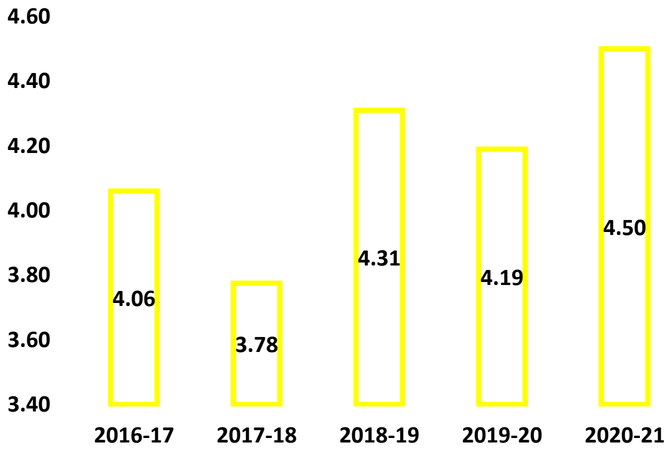


The study inferred that the liquid ratio is at a satisfactory level during the year 2016-2018 and it was higher i.e., 2.79:1 during 2018-19 and decreased too merely to 2.29 during 2019-2020 and again rose to 2.64 during 2020-2021.

TABLE 3: Inventory turnover ratio

S. NO	YEAR	RATIO
1	2016-17	3.32
2	2017-18	3.15
3	2018-19	3.21
4	2019-20	3.14
5	2020-21	3.36

FIG 3: Inventory turnover ratio

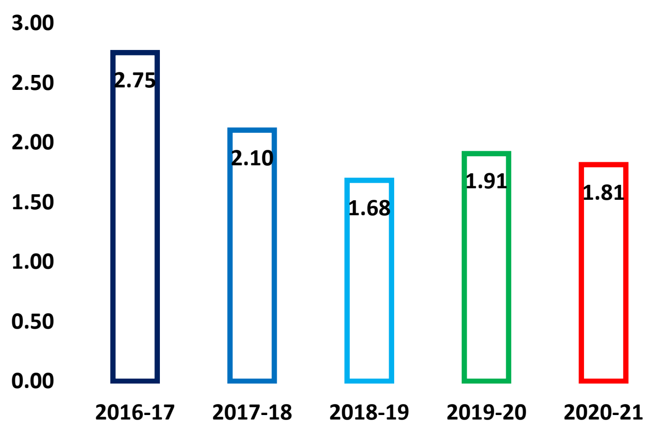


The study inferred that the inventory turnover ratio is at a good level. It increases in 2016-17 and decreases to 3.15 times in 2017-18 and increases to 3.21 times in 2018-19 and again decreases to 3.14 times in 2019-20 and again rose to 3.36 times in 2020-21.

TABLE 4: Working capital turnover ratio

S. NO	YEAR	RATIO
1	2016-17	2.75
2	2017-18	2.10
3	2018-19	1.68
4	2019-20	1.91
5	2020-21	1.81

FIG 4: Working capital turnover ratio

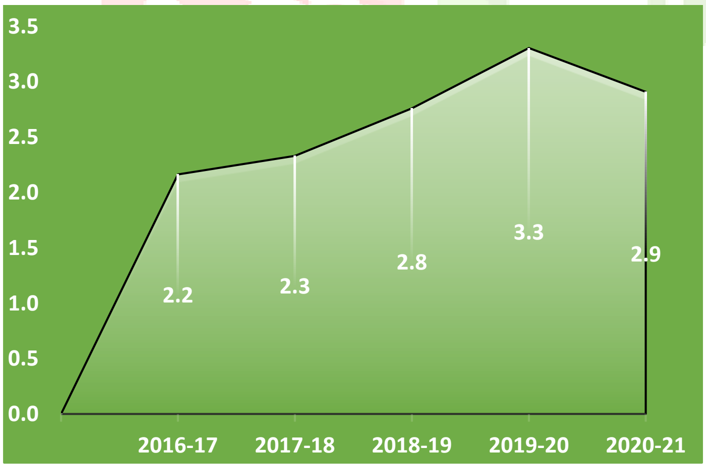


The study inferred the working capital turnover ratio. The working capital is not being properly utilized even though the company earns profit the WCTR falls during 2018-2019 to 1.68 times and recovered between 2019 and 2020 and again simply falls to 1.81 during 2020-21 because of the pandemic.

TABLE 5: Average collection period

S. NO	YEAR	ACP
1	2016-17	2.2
2	2017-18	2.3
3	2018-19	2.8
4	2019-20	3.3
5	2020-21	2.9

FIG 5: Average collection period

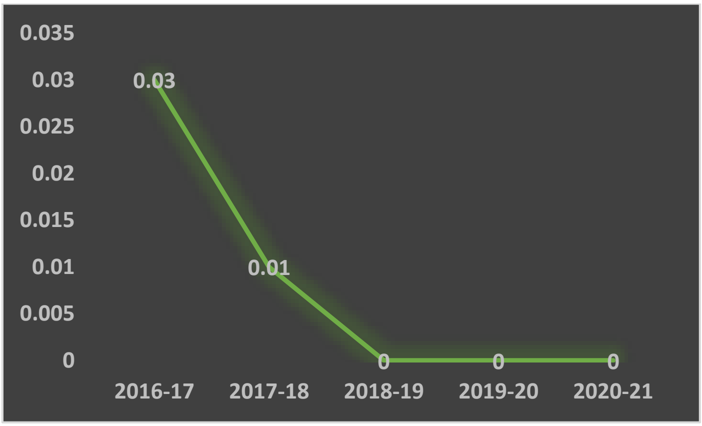


The study inferred that the average collection period is at a good rate pre and post covid but during the pandemic, the rate of receivables was poor at the 3.3 months.

TABLE 6: Debt Equity Ratio

S. NO	YEAR	RATIO
1	2016-17	0.03
2	2017-18	0.01
3	2018-19	0
4	2019-20	0
5	2020-21	0

FIG 6: Debt Equity Ratio

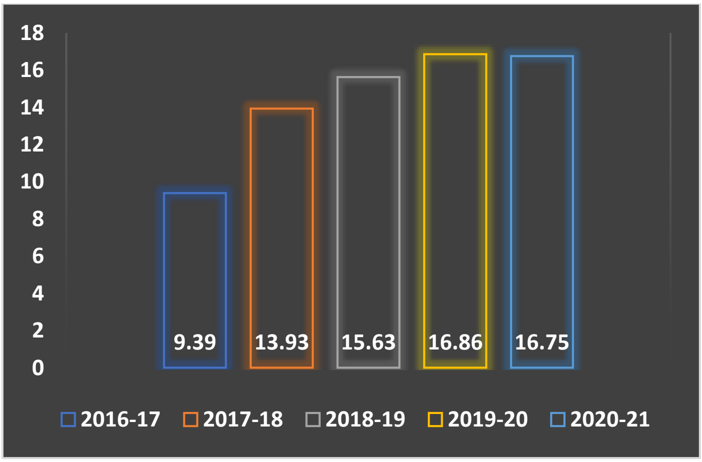


The study inferred that the debt-equity ratio of the company is not good. The satisfactory level of ratio is 2:1 but the company is maintaining a lesser and even nil ratio.

TABLE 7: Return on capital employed

S. NO	YEAR	ROCE
1	2016-17	9.39%
2	2017-18	13.93%
3	2018-19	15.63%
4	2019-20	16.86%
5	2020-21	16.75%

FIG 7: Return on capital employed



The study inferred that the company's return on capital employed is increased over the years from 9.4% to 16% which shows a positive future for the company.

V. SUGGESTION

It is suggested for the company maintain the current asset level to be effective. If the company maintains the components of working capital i.e., the cash, receivables, and inventory it can improve its sales which helps to earn profit. The debt-equity ratio of the company is usually recommended to boost within the forthcoming years.

VI. CONCLUSION

Working capital management is an important component in identifying the company's financial position. If the company maintains the components of working capital i.e., the cash, receivables, and inventory it can improve its sales which helps to earn profit. As per the objectives, the study explains that the financial position is satisfactory but the debt-equity ratio of the company is usually recommended to boost within the forthcoming years and also the assets show a positive influence on the company's profitability and liquidity position over the years. As the current assets are more than the current liabilities, it impacts a better financial position of the company. The working capital of the company seemed to be increased gradually over the years and it is invested effectively. It is suggested for the company maintain the current asset level to be effective.

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