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Profitability Relates to Working Capital Management

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Abstract

Pharmaceutical Industry is a veryorganised andpredictable in India.In this Industry a very high percentage of current assets and also a major part of current assets is parked in the inventories, debtors and liquid assets (for daily and weekly payment for supplier). Working Capital Management (WCM) is anessential part of financial management of any Business and Industry. WCM are considering Important Factor to secure success of enterprises and on the other hand effective use of working capital management its increase profitability and liquidity position of the Business. The main objective of this study is to have a comprehensive analysis of Working Capital Management in selected Pharmaceutical Companiesin India. The study will help to in light the importance of working capital management as an essential tool for sure success of pharmaceutical and related product business. In this study various financial ratios are used to measure liquidity and profitability of the selected pharmaceutical companies. The study is based on five years secondary data start from 2017-18 to 2021-22. The secondary data has been analysed through financial ratio and statistical tools such as Average. Hypotheses are tested with one way ANOVA and Correlation also established relation between various financial ratios of selected pharmaceutical companies.

Keywords – Liquidity, Profitability and Working Capital Management.

Introduction

Pharmaceutical Industry in India

The Indian pharmaceutical industries are one of the very good developing industries. The Indian Pharmaceutical companies producing drug through the world. India is the top three medicine producing and export country in the world and 50% various medicines supplied to the world by Indian pharmaceutical companies. Moreover, they supplied 40% primary demand to US people and 25% supplied to people living in United Kingdom. The Government of India, recently started to encourage the development of drugs producer by

Indian companies in the early 1960, and with the Act of Patent in 1970. However, the Former Prime Minister Mr. P. V. Narasimha Rao and Dr. Manmohan Singh, introduced New Economic Policy to develop the Indian industry to beat world competitors. Indian companies impressed a role in both the Indian and global markets with their proficiency in reverse-engineering new processes for mechanized drugs at low costs which become the improvement for pharmaceutical Industries.The pharmaceutical industry in India is currently valued at $50 bn. India is a major exporter of Pharmaceuticals, with more than 200 countries served by Indian pharma exports. India supplies over 50% of Africa's requirement for generics, 40% of generic demand in the US and 25% of all medicine in the UK.

The Indian pharmaceutical industries are one of the very good developing industries. The Indian Pharmaceutical companies producing drug through the world. India is the top three medicine producing and export country in the world and 50% various medicines supplied to the world by Indian Pharmaceutical Companies. Moreover, they supplied 40% primary demand to US people and 25% supplied to people living in United Kingdom. Indian Pharmaceutical industry supplies more than fifty percent of theglobal demand for various vaccines. In the global pharmaceuticalssector, India is a significant and rising player. India is the world's largestsupplier of generic medications. The companies in Indianpharmaceutical industry are fairly doing well, hence promoters andinvestors in this industry need to financial pattern, profitability anddeterminants for financial pattern, profitability of these firms.

India is the largest and one of the most economical producers in pharmaceutical and related product in the world. It is one of the largest producers as well as consumer of pharmaceutical and related pharmaceutical and related products(Gupta & Likhar, 2021)Indian pharmaceutical industry provides livelihood to millions of homes in urban as well as rural areas, ensuring supply of quality pharmaceutical and related products to people in both urban and rural areas. With a view to keep pace with the country’s increasing demand for pharmaceutical and related products, the Indian pharmaceuticalindustry has been growing rapidly. Due to their rich qualities, the consumption ofpharmaceutical and related products has been growing exponentially in India.Working Capital management is the management of assets which are current in nature. Working Capital is the excess of current assets over current liabilities. The goal of working capital management is to manage the current assets and liabilities in such a way that acceptable level of net working capital is maintained. There are two types working capital, first is Gross working Capital, and second is Net working Capital. The gross working

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capital known as Quantitative aspect and the Net working Capital is known as qualitative aspect of working capital.(Bhatia Sukhmani & Barwal Navdeep, 2015)

Indian Pharmaceutical industry supplies more than fifty percent of theglobal demand for various vaccines. In the global pharmaceuticalssector, India is a significant and rising player. India is the world's largestsupplier of generic medications.(Manjunatha, 2022)

Brief about of selected Pharmaceutical Companies

Cipla

Cipla Established in 1935, is a global pharmaceutical company focused on agileand sustainable growth with a firm commitment to make medicines accessible andavailable to those in need.Cipla is the third-largest pharmaceutical company in India and the third largest in the private pharmaceutical market of South Africa (IQVIA, March 2022). The company is second largest Indian exporter to emerging markets and also among the most dispensed generic playersin the US. Cipla has performed strongly inAMR stewardship and achieved ascore of 60% in generic pharmamanufacturing in Access toMedicine Foundation's AMRBenchmark Report 2021,which is2nd highest in Indian GenericPharma companies.

Cipla second largest in chronicbranded prescription business; strong marketshare and healthy ranks across acute andchronic therapies.Scale-up in branded In-licensing businessdriven by well-entrenched global MNCpartnerships; Anti-diabetic portfolioin-licensed from Eli Lily in Q4 FY 2021-22.Largest trade generic business in India;strong traction in flagship brands and orderflow across regions attributed to expandingportfolio breadth and deepening connectwith channel. More than 500 crores consumer health business;continued to drive illness to wellness themeled by brand building initiatives, deepeningdistribution and category innovations with a rich portfolio, Cipla is deepening presence inthe home markets of India, as well as South Africa, North America, and other keyregulated and emerging markets. Company has 47 manufacturing sites around the worldproduce more than 50 dosage forms and 1,500 products using cutting-edge technologyplatforms to cater to their 86 markets.

Divi's Laboratories Limited

Divis Laboratories Limited established in the year 1990,headquartered in Hyderabad is a leading manufacturer of Active Pharmaceutical Ingredients offering high quality products to over 95 countries in the world. Divi's Laboratoriesis an Indian multinational pharmaceutical company and producer of active pharmaceutical ingredients and intermediates.

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The company manufactures and custom synthesizes generic APIs, intermediatesDivis is one of the leadingpharmaceutical companies in the world, manufacturingActive Pharmaceutical Ingredients (APIs), Intermediatesand NutraceuticalsLeveraging their manufacturing facilities and researchcapabilities, Company have earned a reputablename in manufacturing and supplyingHigh-Quality Generics, CustomSynthesis of APIs and intermediatesfor global innovator companies andnutraceutical ingredients. Company is one ofthe world's largest API companies, withtwo manufacturing units and a marketpresence across 95 countries. The company working with more than 18,000employees and aportfolio of more than 160 products across diversetherapeutic areas.

Company is making steadyprogress with disciplined execution.Company is focusing to achieving they're of sustainable chemistry by continuously. The company involved in optimizing the processes and practicesthat not only protect, but improve humanhealthand preserve environment. Divis has also established three R&D centers,each with a team of competent andqualified people who assist us incontinuously improvisingprocesses and several process patents havebeen granted and maintaining marketleadership for majority of pharmaceutical products,while ensuring that operatingpractices are safe and sustainable.

Reddy

Dr. Reddy Laboratories started in year 1984 with a modest investment and a bold visionwith research and development centers, manufacturing facilities and commercialpresence across theglobe, company serve over half a billion patients worldwide. Company aspires totriple our reach and touch over 1.5 billion patients.

Dr. Reddy's originally launched in 1984 producing active pharmaceutical ingredients. In 1986, Reddy's started operations on branded formulations. Within a year Reddy's had launched Norilet, the company's first recognized brand in India. Soon, Dr. Reddy's obtained another success with Omez, its branded omeprazole – gastrointestinal ulcer and reflux esophagitis medication – launched at half the price of other brands on the Indian market at that time. This is now branched in Hyderabad, within a year, Reddy's became the first Indian company to export the active ingredients for pharmaceuticals to Europe. In 1987, Reddy's started to transform itself from a supplier of pharmaceutical ingredients to other manufacturers into a manufacturer of pharmaceutical products.

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Dr. Reddy's Laboratories is an Indian multinational pharmaceutical company based in Hyderabad. The company was founded by Kallam Anji Reddy, who previously worked in the mentor institute Indian Drugs and Pharmaceuticals Limited. Dr. Reddy's manufactures and markets a wide range of pharmaceuticals in India and overseas. The company has over 190 medications, 60 active pharmaceutical ingredients (APIs) for drug manufacture, diagnostic kits, critical care, and biotechnology.

Dr. Reddy's began as a supplier to Indian drug manufacturers, but it soon started exporting to other less-regulated markets that had the advantage of not having to spend time and money on a manufacturing plant that would gain approval from a drug licensing body such as the U.S. Food and Drug Administration (FDA). By the early 1990s, the expanded scale and profitability from these unregulated markets enabled the company to begin focusing on getting approval from drug regulators for their formulations and bulk drug manufacturing plants – in more-developed economies. This allowed their movement into regulated markets such as the US and Europe. In 2014, Dr. Reddy Laboratories was listed among 1200 of India's most trusted brands according to the Brand Trust Report 2014.

Sun Pharma

Sun Pharmais an Indian multinational pharmaceutical company headquartered in Mumbai, that manufactures and sells pharmaceutical formulations and active pharmaceutical ingredients (APIs) in more than 100 countries across the globe. The 2014 acquisition of Ranbaxy made Sun Pharma the largest pharma company in India, the largest Indian pharma company in the US, and the 4th largest specialty generic company globally. It is the largest pharmaceutical company in India and the fourth largest specialty generic pharmaceutical company in the world.

Sun Pharmaceuticals was founded by Dilip Shanghvi in 1983 in Vapi, Gujarat, with five products to treat psychiatry ailments. Cardiology products were introduced in 1987followed by gastroenterology products in 1989. Today it is ranked number one by prescriptions with nine different specialties of doctors in India and a market leader in cardiology, gastroenterology, ortho, diabetology, dermatology, urology, vitamins, minerals, and nutrients.

Over 72% of Sun Pharma sales are from markets outside India, primarily in the United States. The US is the single largest market, accounting for about 30% of the company's turnover in all, formulations or finished dosage forms, account for 93% of the turnover. Manufacturing is across 44 global locations in India,US, Asia, Africa, Australia and Europe. In the United

States, the company markets a large basket of generics, with a strong pipeline awaiting approval from the US Food and Drug Administration (FDA).

Review of Literature

Researchers have been studying on Working Capital Management since a long time from different views and ideas. Following researches have been found to be extremely helpful in this research Paper -

Gupta A., Likhar V. (2021) concluded that importance of WCM as an essential tool for sure success of dairy and related enterprise and business. In this study various financial ratios used to measure liquidity and profitability of selected dairies. It's said that effective use of WCM increase profitability and liquid position of enterprises and business.

Deb and Dey (2019)wasanalyzed that working capital management practices of selected three Indian steel companies was satisfactory results in their study period. It has been found the study that a major part of the current assets was maintained in the form of stocks or inventory. They analyze that results can be further strengthened if companies are able to manage its working capital with more effective ways.

(Sharma Dinesh & Sharma Jayalaxmi, 2015)study analysis the profitability and working capital management of SAIL. Profitability is the financial measure of corporate ability to earn profit and measured though profitability ratio. Working capital management reflects the corporate ability to continue its operation.

Bhatia S.& Barwal N. (2015) found that sector profitability and company was positively and significantly related to current ratios and liquid assets. Liner regression analysis was confirmed profitability of firm increase with liquid assets.

Maheshwari (2014) studied the Indian steel industry by selecting top four Indian steel companies include SAIL. This study shows that the financial performance of steel industry is satisfactory. Efficient use of working capital management plays a vital role in maintain better liquidity and profitability of the business

Objectives of the study

- To study the Components of Working Capital Management of Selected Pharmaceutical Companies in India.
- To analyse relationship among the selected Pharmaceutical Companies.

Hypothesis of the Study (Alternatives Hypotheses)

H_{a1}- There is significant difference between Liquidityand Profitability Ratios of selected PharmaceuticalCompanies.

H_{a2}- There is significant difference between Current Ratios of selected Co.

H_{a3}- There is significant difference between Quick Ratios of selected Co.

H_{a4}- There issignificant difference between Inventory Turnover Ratios of selected Co.

H_{a5}- There is significant difference between Debtor Turnover Ratios of selected Co.

H_{a6}- There is significant difference between Working Capital Turnover Ratios of selected Co

H_{a7}- There is significant difference between Fixed Assets Turnover Ratios of selected Co.

H_{a8}- There issignificant difference between Net Profit Ratios of selected Co.

H_{a9}- There is significant difference between Return on Equity of selected Co.

H_{a10}- There is significant difference between Return on Investment of selected Co.

Research Methodology

The study has covers four Indian Pharmaceutical Companies which areCipla, Divis, Reddy and Sun Pharma.The study is based on secondary data which is collected from various sources viz., Annual Report, books, journals and selected pharmaceutical companies' websites under the study.In this study various financial ratios used to measure working capital management, liquidity position and profitability of selected pharmaceutical companies like current ratio, quick ratio, inventory turnover ratio, debtor turnover ratio, working capital turnover ratio, fixed assets turnover ratio, net profit ratio, return on equity and return on investment ratio.

Table - 1 Liquidity & Profitability Ratios of Cipla

Years	CR	QR	ITR	DTR	WCTR	FATR	NPR	ROE	ROA
2017-18	2.91	1.79	1.37	4.90	2.20	2.75	9.30	10.41	8.59
2018-19	4.00	2.79	1.57	3.91	1.74	3.10	9.30	11.97	10.25
2019-20	3.45	2.29	1.43	3.56	1.98	3.43	9.00	13.32	11.36
2020-21	3.89	2.71	1.65	4.58	1.84	3.89	12.60	12.39	10.75
2021-22	4.22	2.89	1.59	6.75	1.69	4.29	11.60	13.14	11.62
Average	**3.69**	**2.49**	**1.52**	**4.74**	**1.89**	**3.49**	**10.36**	**12.24**	**10.51**

Source: Calculated data from Annual Report.

Table - 1 is showing nine financial ratios of liquidity and profitability of Cipla and their averages. In the table showing highest average of return on equity and minimum average of inventory turnover ratio. the averages of current ratio and quick ratio is more their standard ratio and profitability ratio are in good position because NPR, ROE and ROA more than ten percent. So, it is said that Cipla are good in liquidity as well as in profitability.

Table - 2 Liquidity & Profitability Ratios of Divis

Years	CR	QR	ITR	DTR	WCTR	FATR	NPR	ROE	ROA

2017-18	7.11	5.11	1.17	3.45	0.98	1.93	22.02	14.59	12.77
2018-19	5.58	3.58	1.11	3.81	1.28	2.34	26.46	19.11	16.57
2019-20	5.16	3.23	1.20	3.46	1.41	1.92	24.96	18.76	16.12
2020-21	5.63	3.75	1.11	3.89	1.35	1.84	28.49	21.08	18.23
2021-22	7.10	4.84	1.13	3.46	1.25	2.06	32.79	25.22	22.16
Average	**6.12**	**4.10**	**1.14**	**3.61**	**1.25**	**2.02**	**26.94**	**19.75**	**17.17**

Source: Calculated data from Annual Report.

Table - 2 is showing nine financial ratios of liquidity and profitability of Divisand their averages. In the table showing highest average of net profit ratio and minimum average of inventory turnover ratio. the averages of current ratio and quick ratio is more their standard ratio and profitability ratio are in good position because NPR are more than twenty six percent, on the other hand ROE and ROA more than seventy percent. So, it is said that Divis are good in liquidity as well as in profitability also.

Table - 3 Liquidity & Profitability Ratios of Reddy

Years	CR	QR	ITR	DTR	WCTR	FATR	NPR	ROE	ROA
2017-18	1.91	1.52	1.42	2.23	2.17	2.35	6.90	4.80	3.32
2018-19	2.90	2.25	1.51	2.86	1.82	2.69	12.20	10.07	7.86
2019-20	2.42	1.89	1.63	2.55	2.00	3.14	11.20	19.34	15.08
2020-21	2.40	1.78	1.46	3.27	2.09	3.73	9.10	12.87	10.11
2021-22	2.23	1.68	1.51	2.91	1.94	3.58	11.00	8.85	6.63
Average	**2.37**	**1.82**	**1.51**	**2.76**	**2.00**	**3.10**	**10.08**	**11.19**	**8.60**

Source: Calculated data from Annual Report.

Table - 3 is showing nine financial ratios of liquidity and profitability of Reddyand their averages. In the table showing highest average of return on equity and minimum average of inventory turnover ratio. the averages of current ratio and quick ratio is more their standard ratio and profitability ratio are in good position because NPR and ROE are more than ten percent but ROA ratio is less than ten percent. So, it is said that Reddy are good in liquidity as well as in profitability.

Table– 4: Liquidity & Profitability Ratios of Sun Pharma

Years	CR	QR	ITR	DTR	WCTR	FATR	NPR	ROE	ROA
2017-18	0.76	0.59	1.67	1.71	-3.02	2.05	3.50	1.37	0.83
2018-19	0.84	0.63	1.32	2.05	-4.90	2.19	8.30	3.57	2.17
2019-20	1.07	0.83	1.73	2.03	17.00	2.55	27.00	13.16	8.36
2020-21	1.45	1.07	1.51	2.01	3.44	2.63	17.00	8.55	5.49
2021-22	0.96	0.62	1.66	3.67	-38.76	3.14	-0.64	-0.41	-0.25

Average	**1.02**	**0.75**	**1.58**	**2.29**	**-5.25**	**2.51**	**11.03**	**5.25**	**3.32**

Source: Calculated data from Annual Report.

Table - 4 is showing nine financial ratios of liquidity and profitability of Sun Pharma and their averages. In the table showing highest average of net profit ratio and minimum negative average of working capital turnover ratio. the averages of current ratio and quick ratio is less their standard ratio and profitability ratio are not good position as other pharmaceutical companies because ROE and ROA are less than ten percent but other pharmaceutical companies are more than ten percent. So, it is said that Sun Pharma are not good in liquidity as well as in profitability as comparison to selected other pharmaceutical companies in India.

Table – 5 Averages of Liquidity and profitability Ratios of Pharmaceutical Companies

Ratio	Cipla	Divis	Reddy	Sun Pharma
CR	3.69	6.12	2.37	1.02
QR	2.49	4.10	1.82	0.75
ITR	1.52	1.14	1.51	1.58
DTR	4.74	3.61	2.76	2.29
WCTR	1.89	1.25	2.00	-5.25
FATR	3.49	2.02	3.10	2.51
NPR	10.36	26.94	10.08	11.03
ROE	12.24	19.75	11.19	5.25
ROA	10.51	17.17	8.60	3.32

Source: Received data from Table 1 to 4

Table - 5 is showing averages of nine financial ratios of liquidity and profitability of selected pharmaceutical companies. In Cipla maximum average showing ROE and minimum average of ITR. The probability ratio are more than ten percent. In Divis probability ratios are more than seventeen percent which highest average in all averages and minimum average in ITR. In Reddy also showing good averages in profitability so maximum average in ROE and minimum average in ITR. On the other hand, Sun Pharma showed low profitability averages also showing low level in liquidity ratios and its WCTR showed minimum and negative value. Sun Pharma also showed average CR and QR less than standard but other pharmaceutical companies are more than standard ratio. Other three pharmaceutical companies showed minimum averages in ITR ratio but Sun Pharma not.

Analysis through Testing Hypotheses using F-test (ANOVA)

Testing the First Hypothesis which is:

H_{a1}- There is significant difference between Liquidityand Profitability Ratios of selectedPharmaceutical Companies.

Table–6Analysis of Variance of Liquidity and Profitability Ratios ofPharmaceutical

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Sources of Variance	Sum of Squares	DF	Mean Square	F-Ratio	F-Critical Value	P-value
Between Companies	203.38	3	67.79	1.89	2.90	0.15
Within Companies	1146.53	32	35.83			
Total	1349.91	35				

Conclusion - Since the computed value of F-Ratio between selected pharmaceutical companiesis less thancritical value and P-value (0.15 > 0.05) at 5% level of Significance so then alternative hypothesis is rejected and null hypothesis is accepted that means there is no significant difference between liquidity and profitabilityratiosof selected Pharmaceutical Companies under study.

Analysis through Testing Hypotheses using F-test (ANOVA)

Testing the NineAlternative Hypotheses which is:

H_{a2}- There is significant difference between Current Ratios of selected Co.
H_{a3}- There is significant difference between Quick Ratios of selected Co.
H_{a4}- There issignificant difference between Inventory Turnover Ratios of selected Co.
H_{a5}- There is significant difference between Debtor Turnover Ratios of selected Co.
H_{a6}- There is significant difference between Working Capital Turnover Ratios of selected Co
H_{a7}- There is significant difference between Fixed Assets Turnover Ratios of selected Co.
H_{a8}- There issignificant difference between Net Profit Ratios of selected Co.
H_{a9}- There is significant difference between Return on Equity of selected Co.
H_{a10}- There is significant difference between Return on Investment of selected Co.

Table – 7ANOVA Results of Individual Ratios amongPharmaceutical Companies

Ratio	P-Value	F-Value	F-Critical	DF
CR	0.00	71.57	3.24	19
QR	0.00	39.59	3.24	19
ITR	0.00	15.63	3.24	19
DTR	0.00	9.74	3.24	19
WCTR	0.64	0.58	3.24	19
FATR	0.00	9.02	3.24	19
NPR	0.00	9.28	3.24	19
ROE	0.00	9.29	3.24	19
ROA	0.00	14.58	3.24	19

Source: Calculated data from financial statements

In table – 7 showing individual ratio among selected pharmaceutical companies. In all liquidity and profitability ratio only working capital turnover ratio calculated F-Ratio is less than F-Critical value at 5% level of significance so it is said that there is no significance difference in WCTR in selected pharmaceutical companies. But in all other ratios showed that F-Ratio value is more than its critical and P-value is less than 0.05 so all alternative hypothesis accepted it mean there is significant difference between all ratio in between selected pharmaceutical companies.

Table - 8 Correlation Results of Pharmaceutical Companies

Ratios	Cipla v/s Divis	Cipla v/s Reddy	Cipla v/s Sun Pharma	Divis v/s Reddy	Divis v/s Sun Pharma	Reddy v/s SunPharma
CR	-0.15	0.59	0.34	-0.71	-0.48	0.12
QR	-0.32	0.52	0.21	-0.75	-0.56	0.04
ITR	-0.88	-0.09	-0.56	0.42	0.82	0.26
DTR	-0.34	0.15	0.83	0.75	-0.31	0.33
WCTR	-0.58	0.78	0.52	-0.45	0.30	0.29
FATR	-0.19	0.94	0.97	-0.35	-0.19	0.86
NPR	0.73	-0.11	-0.17	0.48	-0.29	0.21
ROE	0.76	0.75	0.45	0.18	-0.15	0.92
ROA	0.82	0.67	0.35	0.14	-0.19	0.92

Source: Calculated data in MS-Excel.

Table - 8 shows correlation between selected pharmaceutical companies under study. there is highest positive correlation value in between Cipla with Sun Pharma in Fixed assets turnover ratio and lowest positive correlation value in quick ratio between Reddy and Sun Pharma. On the other hand, highest negative corelation value between Cipla and Divis in inventory turnover ratio and lowest negative corelation value between Cipla and Reddy in Inventory turnover ratio. It has been found that in first column Cipla has negative correlated to divis in liquidity ratio but highly positive correlated to Divis. In second column Cipla positive highly correlated to Reddy in liquidity and profitability except two ratios. In third column Cipla positive correlated to Sun Pharma but there is less correlate as comparison Reddy and also except two ratios. In fourth column Divis negative correlate to Reddy in liquidity ratios but low-level positive relates. In fifth column Divis negative correlates with Sun Pharma but in last column Reddy positive correlates with Sun Pharma it showing low level in liquidity but high level in profitability.

Conclusion

In relation to the first objective and first hypothesis it may be concluded that liquidity and working capital management of selected pharmaceutical companies is satisfactory in the selected study period. It has been found that three pharmaceutical companies out of four companies' Current ratios and Quick ratios was more than their standard ratio. so, itsshowsthat the liquidity and working capital management position of the selected pharmaceutical companies is satisfactory and it is also a good indication.

In Individual ratio among using F-test, Only Current ratio and Debtor turnover ratio has significant difference between dairies. On the other hand, in correlation table Debtor turnover ratio shows mid-level positive correlation between dairies it means all dairies are more efficient in managing Debtors.

Limitation of the Study

The study is based on secondary data. The study covers only five-year working capital position by the selected pharmaceutical companies, before and after trend is not considered in the study. This study period covers a period of full lockdown in India, which have a bigproblem of income.

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