Chapter–6
WORKING CAPITAL MANAGEMENT
Chapter–VI

Working Capital Management

6.1 Introduction

Working Capital is the short term financial investment which is concerned with decisions relating to current assets and current liabilities. Working Capital is regarded as one of the conditioning factors for the success of a firm.

A business enterprise not only fixed capital but also working capital. The working capital means that amount of funds which is required to maintain the day-to-day operation of an enterprise. Thus, working capital management is concerned with the problems that arise in affording to manage the current assets, current liabilities and inter-relationships that exist between them. So the current assets and current liabilities are the two important components of working capital.

The two vital aspects of business life are liquidity and profitability. A firm may exist without making profits but cannot survive without liquidity. The management of working capital is continuing function which involves control of the day to day expenditures and flow of financial resources circulating in the enterprise so as to maintain balance between Liquidity and Profitability.

6.1.1 Concept of Working Capital:

Basically there are two concepts of Working Capital - Gross Working Capital and Net Working Capital. The Gross working capital, commonly known as working capital, refers to a firm’s investment in current assets. Those assets which can be converted into cash within an accounting period are termed as current assets and include cash, short term securities debtors, bill receivables, inventories etc. Gross working capital is equal to the total of all current assets (including loans and advances) of a company. From the management view-point, gross capital deals with the issues of managing individual current assets within the day-to-day operations.

Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders that are expected to mature for payment inside an accounting year and embody creditors, bills payable (accounts payable), bank overdrafts; outstanding expenses etc. net working capital may be positive or negative. A positive net working capital can arise once current assets...
exceed current liabilities. A negative net working capital occurs once current liabilities are in excess of current Assets. Generally net working capital is also noted as "Net Current Assets"

According to Professors Ralph D. Kennedy and Stewart Y. Mc Mullen, "Working Capital is that the way over current Assets over current liabilities, the amount of assets that has been supplied by the long-term creditors and stockholders. The statement of working capital (excess of current assets over current liabilities) is meant to emphasise the current financial position". This definition of capital has additionally been supported by Lincoln, Saliers and Stevens.

The net concept of Working Capital has been defined by some authors as the "qualitative" concept and the total current assets concept as the "quantitative" concept of working Capital. The qualitative definition "shows the possible availability of current assets in excess of the current liabilities. It represents an index of financial soundness or margin of protection for current creditors and future current operation". The net and gross concept of working capital has its own uses. The choice will naturally depend on the purpose of the study. The net concept is more useful and preferable where the purpose is to find out the financial position, say short-term solvency or liquidity. A lender, Creditor, bank or a credit institution may prefer to use this concept for its concern. But if the object is to determine the extent to which the working capital is put to use, the gross working capital concept should be preferred.

Both concepts are important facts of the working capital management. If the objective of working capital is to measure the size and extent to which the current assets are being used, the gross concept is useful but in the event of evaluation of liquidity position of a concern, the net concept of working capital becomes relevant and preferable.

6.1.2 Importance of Working Capital:

A study of Working Capital and its management is of major importance because of its relationship with the day to day operations of a business. It is important to internal as well as external analysts. It is being progressively realized that inadequacy or direction of working capital is that the chief reason for business failure. Management of working capital is an integral a part of overall financial management and ultimately of overall corporate management. Working capital management so throws a challenge and will be a welcome opportunity for a financial manager who is prepared to play a crucial role in his organisation.
Lack of correct management of proper for any business unit could result in technical financial condition and even in its liquidation. With receivables and inventories tending to grow and with increasing demand for bank credit within the wake of strict regulation of credit in India by the central bank, managers need to develop a long-run perspective for managing working capital. Its importance stems from following 2 reasons-

- Investment in current assets represents a considerable portion of total investments.
- Investment in current assets and also the level of current liabilities got to be geared quickly to changes in sales. To be sure, fixed assets investment and long run financing are responsive to variation in sales. However, this relationship isn't as close and direct as it is within the case of working capital parts.

The importance of working capital management is mirrored within the fact that financial managers spend an excellent deal of time in managing current assets and current liabilities. Composition short-term financing, negotiating favourable credit terms, controlling the movement of cash, administering accounts receivables and watching the investment in inventories consume an excellent deal of time of financial managers.

Lack of working capital may cause either inadequate or excessive working capital and both the situations are dangerous to the very existence of any trading or industrial unit. As a matter of fact, any organization, whether, industrial unit or trading unit will not be able to carry on day-to-day activities without adequate working capital.

A firm might have to face the subsequent adverse consequences from inadequate working capital:-

**Interruption in increasing growth:**
Growth may be stunted. It may become difficult for the firm to undertake profitable projects due to non availability of funds.

**Non-Implementation of New plans:**
Implementation of operating plans might become tough for the firm and consequently the firm's profit goals might not be achieved. Inefficiency of operating expenses: operating inefficiency might sneak in because of difficulties in meeting even day to day commitments.
Part-utilization of fixed assets:

Fixed Assets may not be efficiently and fully utilized due to lack of working funds, thus lowering the rate of return on investments in the process.

Loss of Attractive Credit Opportunities:

Attractive Credit Chances may have to be lost due to paucity of working capital.

Down-Fall in reputation:

The firm loses its reputation when it's not in an exceedingly position to honour its short term obligations. As a result, the firm is probably going to face tight credit terms.

On the other hand, excessive working capital may create the following dangers:

Unnecessary Accumulation of Stock: Excess of working capital could result in unnecessary accumulation of inventories increasing the probabilities of inventory mishandling, waste, and theft.

Loss due to Liberal Credit Policy: It may offer an undue incentive for adopting too liberal a credit policy and loosening of collection of receivables, inflicting a better incidence of bad debts. This has adverse effects on profits.

Inefficiency in Managerial Activities: Excessive Working Capital may make management self-satisfied, leading eventually to managerial inefficiency.

Loss due to Liberal Dividend Policy: It may encourage the tendency to accumulate inventories for making speculative profits, inflicting a liberal Dividend policy that becomes troublesome to take care of once the firm is unable to make speculative profits.

An enlightened management, therefore, ought to maintain the proper amount of working capital on a continual basis. Financial and statistical techniques are often useful in predicting the quantum of working capital required at totally different purpose of time.

6.1.3 Kinds of Working Capital: Ordinarily, Working Capital is classified into two categories:

i. Fixed, Regular or Permanent Working Capital, and

ii. Variable, Fluctuating, Seasonal, Temporary or Special Working Capital.

i. Fixed Working Capital:

The need for current assets is related to the operating cycle that may be a continuous process. As such, the requirement for current assets is felt perpetually, the magnitude of investment in current assets but might not continually be an equivalent.
The requirement for investment in current assets could increase or decrease over a amount of your time in keeping with the extent of production. Still, there's continually a certain minimum level of current assets that is crucial for the firm to carry on its business irrespective of the extent of operations.

**Figure 6.1: Fixed Working Capital Remaining Constant Overtime**

This is the irreducible minimum amount necessary for maintaining the continuity in business operations. This minimum level of investment in current assets is permanently locked up in business and is therefore referred to as permanent or fixed or regular working capital. It is permanent in the same way as investment in the firm's fixed assets.

**Figure 6.2: Fixed Working Capital Increasing Overtime**
**ii. Fluctuating Working Capital:**

Depending upon the changes in production and sales, the requirement for working capital, over and higher than the permanent working capital fluctuates. The requirement for working capital might also vary on account of seasonal changes or abnormal or unexpected conditions. As an example an increase within the price level could cause a rise within the amount of funds invested with available of raw materials furthermore as finished product. Further doses of capital are also needed to face cut-throat competition within the market or other contingencies like strikes and lock outs. Any special advertising campaigns organized for increasing sales or other promotional activities could get to be supported by further working capital. The additional working capital required to support the changing business activities is termed the fluctuating working capital.

Fixed working capital is stable overtime; whereas variable working capital is fluctuating -sometimes increasing and sometimes decreasing. The permanent capital line, however, might not continually be horizontal. For a growing firm, permanent working capital curve can also stick with it increasing upward.

Both these sorts of working capital -permanent and temporary area unit needed to facilitate production and sales through the operating cycle, however temporary arranged is organized by the firm to fulfil liquidity needs that are expected to be temporary.

The distinction between regular associated variable working capital is very important in arrangement the finance for an enterprise. It's undesirable to bring regular working capital into business on a short-run basis as a result of a creditor will seriously handicap the business by refusing to continue lending.

**6.1.4 Financing of Working Capital:**

One of the important decisions in the field of working capital management is the financing of different Kinds of current assets-both permanent and temporary-with diverse sources of Working Capital. "In comparing financing plans, we must always distinguish between three completely different types of financing: long term financing, negotiated short-run financing and spontaneous short-run financing." Working Capital of a concern is financed by spontaneous current liabilities and long term sources. Spontaneous current liabilities are trade creditors, bank overdraft, short term loans and provisions. Long term sources are mainly share capital, debentures and long term loans.
i. Financing Regular Working Capital:

At the time of drafting the initial financial plan, the minimum working capital requirements should be anticipated and adequate provision should be made on a long term basis. Besides ploughing back of profits, share and debentures can be issued to raise the necessary funds. The fixed working capital is also financed by investing capital and/or revenue reserves within the concern. A newly started corporation cannot believe this source however enterprises that have conducted the business over variety of years usually produce reserves by conserving their profits or capital gains. This is the best source of providing finance for the regular working capital with the limitation that it is not available in the initial stages of a firm's career.

ii. Financing Variable Working Capital:

The sources from which seasonal or temporary needs of a company are financed are usually thought of in terms of various agencies which supply credit. Sometimes a business enterprise arranges finance for these needs from its internal operations. The degree, to which external sources can provide variable working capital, is determined by a number of factors like the stability in corporate earnings the assets, which may be offered as security, capital gearing in the financial plan, and the amount of cash available internally.

The most widely used source of temporary working capital is the bank loan taken against hypothecation or pledge of inventory or mortgage of fixed assets. Loans against hypothecation of inventory may be called as short-term but for all practical purposes they are permanent.

The firm must have long term sources as a major portion of its working capital. In absence of long term financing, the financial manager will spend excessive time in managing the liquidity aspects of the current assets rather than focusing on profitability of the concern. Benefits of long term financing are as follows:

a. **Reduced Risk:** Long term financing eliminates the need to repay loans at frequent intervals. This reduces the risk of repayment.

b. **Provides Stability:** If assets are financed from long-term funds, they will be available for a long period of time. They provide certain stability to the firm's operation. The firm need not worry about purchases for production because of the available cash.
c. **Increase Liquidity:** The firm can tie up the long-term funds in Working Capital which increases the liquidity and contributes to the profitability of the firm also.

**6.1.5 Approaches of Working Capital Management:**

What should be the combination of short and long term sources in financing current assets? depending on the combination of short and long term financing, the approaches followed by an organization is also referred to as:

i. Matching Approach,
ii. Conservative Approach,
iii. Aggressive Approach.

i. Matching Approach: Matching approach is also referred to as Hedging approach. The firm will adopt a financial plan that matches the expected life of assets with the expected life of the source of funds raised to finance assets. Thus, a ten-year loan could also be raised to finance a plant with an expected life of ten years; Stock of goods to be oversubscribed in thirty days could also be supported with a thirty day cash equivalent or a loan. The justification for the precise matching is that, since the aim of financing is to pay for assets, the source of funding and therefore the asset involved should be relinquished at the same time. using future financing for short term assets is expensive as funds won't be period for period amount. Similarly, financing long term assets with short term financing is expensive similarly as inconvenient as arrangement for the new short term financing can have to be created on a seamless basis.

When the firm follows matching approach, long term financing are going to be accustomed finance fixed assets and permanent current assets and short-run financing to finance temporary or variable current assets. However, it should be accomplished that actual matching isn't possible due to the uncertainty concerning the expected lives of assets.

Figure 6.3 5 is used to Illustrate the matching set up over them*. The firm's fixed assets and permanent current assets are financed with long term fund and because the level of those assets will increase, the long term financing level also will increase. The temporary or variable current assets are supported with short term funds and as their level will increase, the amount of short term financing also will increase. under matching plan, no short-term financing are going to be used if the firm has fixed current assets need solely.
i. **Conservative Approach:** A firm in observe could adopt a conservative approach in financing its current and fixed assets. The financing policy of the firm is claimed to be conservative once it depends additional on long run funds for financing desires. Under a conservative set up, the firm finances its permanent assets and also a region of temporary current assets with long financing. Within the periods once the firm has no would like for temporary current assets, the idle long run funds is invested within the marketable securities to conservative liquidity. The conservative set up depends heavily on long run financing and, therefore, the firm has less risk of facing the matter of shortage of funds. The conservative financing policy is shown in figure 6.4. It's to be noted that once the firm has no temporary current assets [e.g., at (a) and (b) ], the long funds free is invested within marketable securities to make up the liquidity position of the firm.

**Figure 6.4: Financing Under Conservative Plan**
ii. **Aggressive Approach:** A firm is also aggressive in financing its assets. An aggressive policy is alleged to be followed by the firm once it uses a lot of short term financing than warranted by the matching arrange under an aggressive policy, the firm finances a section of its permanent current assets with short-run financing. Some very aggressive companies could even finance a part of their fixed assets with short term financing. The comparatively a lot of use of short term financing makes the firm a lot of risky. The aggressive financing is shown in figure 6.5 as:

**Figure 6.5: Financing Under Aggressive Plan**

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6.1.6 Components of Working Capital:

In the management of Working Capital there are two components of Working Capital:

i. Current Assets, and

ii. Current Liabilities.

i. **Current Assets:**

Current Assets are those which have a short life span and are swiftly transformed into other assets forms. Current assets comprise several items. The items are -

1) Cash to meet expenses as and when they occur.

2) Accounts Receivables or sundry debtors.

3) Inventory of –

   a. Raw Materials, Stores, Supplies and Spares,

   b. Work-in-process, and

   c. Finished goods.
4) Advance payments towards expenses or purchases, and other short-term advances which are recoverable.

5) Temporary investment of surplus funds which could be converted into cash whenever needed.

ii. Current Liabilities:

Current liabilities are those that are needed to be paid in define short period. A part of the necessity for funds to finance the current assets could also be met from provider of goods on credit, and deferral in payment of expenditures.

The remaining a part of the necessity for working capital could also be met from short borrowing from financiers like banks. This stuff is put together referred to as current liabilities. Items of current liabilities are:

- Goods purchased on credit.
- Expenses incurred within the course of the business of the organization (e.g. wages or salaries, rent, electricity bills, interest etc.) that don't seem to be nonetheless paid for.
- Temporary or short borrowing from banks, financial directions or alternative parties.
- Advances received from parties against goods to be sold or delivered or as short term deposits.
- Other current liabilities such as tax and dividend payable.

6.1.7 Analysis of Working Capital:

Financial Statements of a concern provide us much important information but no conclusion could be drawn only by seeing them. A simple person cannot understand and conclude on the financial position of the concern. Nobody can reach on any significant conclusion unless he analysis on such financial statements. Thus, it's not thus significant to prepare financial statement however it should significant purpose point on true and truthful conclusion by analysis. "To interpret means that to put the that means of a statement into simple terms for the advantages of a person."

The analysis and interpretation of financial statements are an attempt to work out the importance and that means of the financial statement knowledge so the forecast is also made of the prospects for further earnings, ability to pay interest and debts maturities (both, current and long term) and profitability of a sound dividend policy.
The ratio analysis provides guides and due specially in recognizing trends towards higher or poor performance and in finding out significant deviations from any average or comparatively applicable standard. Ratio is symptom like a blood-pressure the pulse or temperature of the individual. Good management can overcome or minimise the symptom as against inefficient management that cannot able to play its right role. Ratio tells us the relationship of one item to another expressed in simple manner. Ratio is simply a means of high lighting in arithmetical terms, the relationship of items which drawn from financial statements.

**6.1.8 Process of Ratio Analysis and Their Interpretation:** Analysis is resolving or separating a thing into its elements or component parts for tracing their relation to the things as a whole and to each other. Interpretation, however, means the explanation of thing in intelligible terms to convey its meaning. Accordingly, 'analysis and interpretation of financial statements' are separating the statements into parts for establishing relationship of the parts to the whole and to each other and communicating the real significance thereof. It is to be noted that this is the last phase of accounting, which originates with identification, measurement, recording, classification, and summarisation of financial transactions, and concludes with preparation, analysis and interpretation of the financial statements to reflect the firm's present position and future prospects. Thus, we can say that the financial statements embody mass of complex data in absolute (money) units rather than decision-making information like activity, profitability, liquidity, leverage and solvency of the concern. Accordingly, their complex components are split into simple composites to establish significant relationship between the relevant constituents of the same statement as also different statements. This criticism in detail, called analysis is of financial statements, provides significant data for interpretation to lucidly convey the financial standing and prospectus of the enterprise to the parties interested in decision making. Analysis, thus, prepares the base without which interpretation is hardly feasible. But some of the latter, the former too is little use. Hence, both analysis and interpretation are closely correlated and indispensable for decision making by management, owners, creditors and other interested in the working of the enterprise. The process of analysis and interpretation passes from following such points:

a. Analysis  
b. Comparison  
c. Study of Trend
d. **Draw Conclusion**  

a. **Analysis:** Figures of financial statements aren't solely the balances of ledger accounts however also they're classified according to their nature. Hence, they can't interpret simply. Much info is collected for his or her interpretation. for finding such info, the analyses of financial statements are done. Financial Analysis is that the process of selection, relation and analysis. Financial statement analysis is basically a study of relationship among the various financial factors during a business as disclosed by a single set of statements and a study of the trends of those factors as shown during a series of statements.

b. **Comparison:** On classifying the grouped facts and analysing them but before interpreting them, the comparison between facts and items should be necessary for finding out the right conclusion of profitability, liquidity and stability of enterprise.

c. **Study of trend:** After comparing data, study of trend is very essential such as, what is the trend of sales in the last some year? There may be a trend of increasing or decreasing in sales. If sales have a trend of increasing, what is the percentage of increasing? What is the trend of profit on sales? There may be an increase or decrease in profit. If profit has a trend of increase or decrease, what is the percentage? By such way, we can calculate all the trends in each and every sphere of the enterprise. Thus, the study of trend is very essential to reach on a fair conclusion.

d. **Draw conclusion:** The main object of interpretation of financial statements is drawing conclusion about the financial position of enterprises. This conclusion cannot be finalised only on the basis of analysis of financial data, comparison and study of trend. For reaching on such true and fair conclusion, we should have the good knowledge and experience of subject including commerce and economics.

**6.1.9 Importance of Analysis & Their Interpretation:**

(a) **Liquidity Ratio:** As per the accountants, working capital is a liquidity concept. Whether the firm will be able to pay off its debts using its cash flows in more important than what level of current or non-current assets it maintains. Viewed so, the difference between current assets and current liabilities is more necessary than the dimensions of investment either in current assets or current liabilities. The potency of working capital management finally depends upon the liquidity that's maintained by the firm. Although many different factors could decide the liquidity of a firm, changes in cash flows consequent upon the changes in working capital items are extremely
pertinent. If cash flows were sure, less working capital would be needed. Usually, the matter stems from the issue in forecasting inflows, vis-a-vis outflows.

**Calculation of Liquidity:** Liquidity of an companies can be studied in two ways, namely (i) Technical Liquidity, and (ii) Operational Liquidity.

The first technique of computation of liquidity is based on the assumption that the firm would possibly become insolvent at any time and whether or not, in such an event, the current assets command by the undertaking would be enough to pay-off the current liabilities. In another way, the computation of 'operational liquidity' attempts the measurement of the firm's potential to meet the current obligations on the basis of net cash flows originating from out of its own operations; It is assumed under this approach the firms are going firms and hence the liabilities are met through the net cash flows arising out of their operations.

(i) **Technical Liquidity:** Technical liquidity is normally evaluated on the basis of the following ratios in a business enterprise:

**Current Ratio:** Current ratio expresses the relationship between current assets to current liabilities. It’s calculated by dividing current assets with current liabilities as:

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

It reveals however quickly a company will meet its short obligations. Higher the quantitative relation the higher the creditors’ position due to the larger profitability, the debts will be paid, after they become due. Whereas interpreting this quantitative relation, care should be taken to check the quantity and quality of the individual current assets. an organization with a high proportion of current assets within the form of cash and account receivables, is additional liquid than one with a high proportion of current assets within the form of inventories, although each the businesses have identical current ratio.

Nevertheless, the current ratio is crude and quick measure of the firm's liquidity as it is only a test of the quantity and not the quality. The limitation of this ratio as an indicator of liquidity lies within the size of the inventory of the enterprise. If inventory forms a high proportion of current assets, the 2:1 ratio may not be adequate, as a significant measure of liquidity.

**Quick or Acid-test Ratio:** This ratio measures the immediate solvency and supplements the current ratio. Recognizing that inventory won't be terribly liquid or slow moving, this ratio takes the quickly realisable assets and measures them against
current liabilities. This can be a lot of refined or somewhat conservative estimate of the firm's liquidity, since it establishes a relation between quick or liquid assets and current liabilities. To be precise, assets are those current assets which might be born-again into money directly or at a brief notice while not diminution of value. The quick ratio provides a more robust measure of overall liquidity only if a company's inventory cannot simply be converted into cash. If inventory is liquid, the current ratio is most popular measure of overall liquidity of a firm. Hence, inventories and prepaid expenses don't seem to be enclosed within the quick assets. The short ratio is, then, expressed as a relation between quick assets and current liabilities, as:

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick Assets = Current Assets - Inventories & Prepaid Expenses.

Conventionally, a quick ratio of 1:1 is taken into account to be a more satisfactory measure of liquidity condition of an organization. In fact, this ratio doesn't entirely succeed the current ratio. Rather, utilized in conjunction with it, tends to give an improved image of the firm's ability to satisfy its claims out of short term assets.

**Absolute Liquidity Ratio**: Absolute liquidity ratio is that the refinement of the conception of eliminating inventory as liquid asset in acid-test ratio, because of their unsure value at the time of liquidation. though receivables are typically rather more liquid in nature than inventories, some doubt could exist regarding their liquidity also. So, by eliminating assets and inventories from the present assets, another live of liquidity springs by relating the total of cash and marketable securities to the present liabilities. Generally, an absolute liquidity ratio of 0.5:1 is taken into account acceptable in evaluating liquidity. This ratio will be measured as:

$$\text{Absolute Liquid Ratio} = \frac{\text{Cash+Bank+ Marketable Securities}}{\text{Current Liabilities}}$$

(ii) **Operational Liquidity**: Operational Liquidity, which is based on the going concern thought of business, is decided by expressing cash flows as a percentage of current liabilities. The study of operational liquidity helps in ascertaining whether or not the enterprise would be able to discharge its current liabilities from the cash flows generated from the operations.

(b) **Activity Ratio**: Funds provided by creditors and owners are invested in varied assets to come up with sales and profits. the higher the management of assets, the
larger the amount of sales. Activity ratios are utilized to gauge the potency with that
the firm manages and utilizes its assets. These ratios are also known as turnover ratios
as a result of they indicate the speed with that assets are being regenerate or turned
over into sales. Activity ratios, thus, involve a relationship between sales and assets. a
correct balance between sales and working capital typically reflects that assets are
managed well. Many activity ratios will be calculated to evaluate the effectiveness of
assets utilization.

**Working Capital Turnover:** The turnover of working capital, that indicates the
frequency at that they were rotating, is another measure of the potency of working
capital management. like every alternative turnover or activity ratio, a low ratio
reflects a slow movement of the current assets, thereby implying a sub-optimum
utilization of working capital. A high working capital turnover ratio reflects
economical utilization of the working capital. This will be referred to as follows:

\[
\text{Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Working Capital}}
\]

### 6.2 Analysis of Working Capital Management

The previous part of the chapter has been presented the theoretical
background, now the further study presents the analysis of management of working
capital in Indian Pharmaceutical Company. From the table 6.1 gross working capital
of Indian pharmaceutical companies are shown gross working capital is total current
assets include cash, receivables, inventory, and other current assets. Average current
assets of Indian pharmaceutical industry are Rs 15180.4 million. On the basis of
average gross working capital, Dr. Reddy'S Laboratories Ltd. has largest investment
in average working capital i.e. Rs 26725.96 million and lowest investment in working
capital is Rs 5404.78 million of Glenmark Pharmaceuticals Ltd., Cipla Ltd. is second
biggest company on the basis of average working capital with Rs 24504.62 million.
Trend of working capital shows the increasing direction in all the companies but the
biggest fluctuation was shown by Piramal Enterprises Ltd. in the year 2009 in which
the working capital was Rs 6340.3 million from Rs 99156.9 million in the 2010.

Cipla Ltd. has registered good growth throughout the study period from Rs
4362.1 million to Rs 44826.5 million. During the study period it is found that the
trend of Piramal Enterprises Ltd. and sun pharmaceutical Inds. Ltd. are much
fluctuating.
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<td>4482.2</td>
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<td>7443.85</td>
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<td>12991.72</td>
<td>13655.91</td>
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### Table: 6.2 Net Working Capital (Rs in millions)

<table>
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<tr>
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<th>2012</th>
<th>2013</th>
<th>Average</th>
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<tbody>
<tr>
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<td>15366.7</td>
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<td>962</td>
<td>1516</td>
<td>1826</td>
<td>1467</td>
<td>2033</td>
<td>2071</td>
<td>3594</td>
<td>4718</td>
<td>4355</td>
<td>6314</td>
<td>7826</td>
<td>9689</td>
<td>9825</td>
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<tr>
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<td>8640.9</td>
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<td>27563.8</td>
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<td>11696.9</td>
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<td>15080</td>
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<td>1285.5</td>
<td>1898.8</td>
<td>9736.5</td>
<td>16967.1</td>
<td>19877.9</td>
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<td>21654.3</td>
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<tr>
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<td>3387.4</td>
<td>4078.6</td>
<td>4739.8</td>
<td>6200.7</td>
<td>3398.7</td>
<td>3067.9</td>
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<td>Lupin Ltd.</td>
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<td>8166.4</td>
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<td>26550.6</td>
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<td>11490.24</td>
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<td>2873.4</td>
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<td>7739.7</td>
<td>13929.85</td>
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<tr>
<td>Sun Pharmaceutical Inds. Ltd.</td>
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<td>2522.9</td>
<td>11812.5</td>
<td>16186.3</td>
<td>16679.3</td>
<td>17396.3</td>
<td>19167.7</td>
<td>9763</td>
<td>21463.6</td>
<td>22773.9</td>
<td>16088.7</td>
<td>34015.6</td>
<td>13957</td>
</tr>
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<td>2889.36</td>
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<td>3528.52</td>
<td>5253.41</td>
<td>6900.75</td>
<td>9496.09</td>
<td>9292.87</td>
<td>10766</td>
<td>10382.1</td>
<td>23248.91</td>
<td>19843.48</td>
<td>21784.58</td>
<td>25056.92</td>
<td>11009</td>
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</tbody>
</table>
Figure: 6.6 Gross Working Capital (Rs in millions)
Figure: 6.7 Net Working Capital (Rs in millions)
From the table 6.2 net working capital of Indian pharmaceutical companies are shown net working capital is gross working capital minus current liabilities. The net working capital of Indian pharmaceutical companies are shown net working capital is gross working capital minus current liabilities. The average net working capital of Indian pharmaceutical companies is Rs 11009 million. On the basis of average net working capital of Dr. Reddy's Laboratories Ltd. has largest i.e. Rs 18291.69 million and Glenmark Pharmaceuticals Ltd. lowest average net working capital is Rs 2994.78 million. The amount of net working capital in most of Indian pharmaceutical companies had been improved during the study period but net working capital of Piramal Enterprises Ltd. had been declining from the year of 2010. So it can be concluded that during the study period, liquidity position of most of Indian pharmaceutical companies had been poor but last three years of Piramal Enterprises Ltd., liquidity position was improved.

To meet the financial requirement, a business firm has various sources. Working capital can be interpreted as the portion of long-term financing (i.e., long-term debt and equity) that the firm uses to finance its operating investment. Working capital can also be thought of as the short-term assets financed by long-term capital. Combination of long term and short term financing are normally used to support working capital.

In table 6.3, an attempt has been made to explain the relative importance of long-term and short-term debt in financing working capital. It is evident from the table that the percentage of the long-term funds used for financing the working capital has shown the fluctuating trend during the period under study. On an average 66.74% of total working capital is financed through long term sources of fund in Indian pharmaceutical companies. Annual average of Sun Pharmaceutical Inds. Ltd. has financed 79.91% working capital from long term sources of fund followed by Aurobindo Pharma Ltd. of 74.68%. Cadila Healthcare Ltd. has financed working capital only 54.91% by long term sources of fund in which the whole working capital is financed through short term source of fund, even some part of long term assets are financed through short term sources of fund as well. This condition is also shown in Piramal Enterprises Ltd.

On an average of 68.97% Cipla Ltd. has financed its working capital through long term source of fund. Throughout the study period minimum financing of
working capital through long term source of fund by Cipla Ltd. was 61.76% in the year 2000 and maximum 76.78% in 2013.

The table 6.4 indicates size of working capital in indian pharmaceutical companies. Concept of Gross working capital i.e. totals current assets was considered as working capital for our analysis. Size of Working Capital (Working Capital to Sales) indicates firm's ability to finance additional sales without incurring additional debt. It measures how well a company is utilizing its working capital to support a given level of sales.

Table 6.5 Indian pharmaceuticals companies have 71% working capital to sales, which indicates a good position of working capital management that most of the pharmaceuticals companies in India have sufficient working capital to survive without additional requirement of fund in adverse situation. The size of working capital to sales is highest in Piramal Enterprises Ltd. on an average 165%, which is due to the unexpected condition in the year 2010 to 2012. But a constant situation can be seen in Cadila Healthcare Ltd. in which it is moving between 29% to 46%.

Cipla Ltd. maintains 0.56 times size of working capital to sales, which is moving between 0.41 times to 0.65 times but throughout the study period it is below the industry average.

Table 6.5 shows the size of working capital of Indian pharmaceutical companies is working capital to total assets. A decreasing Working Capital to Total Assets ratio is usually a negative sign, showing the company may have too many Total Current Liabilities, reducing the amount of Working Capital available. The average working capitals to total assets of Indian pharmaceutical companies have 39% of working capital to total assets. On an average Aurobindo Pharma Ltd. have largest working capital to total assets is 51% and Cadila Healthcare Ltd. have lowest ratio is 26%.
Table: 6.3 Long Term Financing of Working Capital (in percentage)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurobindo Pharma Ltd.</td>
<td>68.35</td>
<td>71.80</td>
<td>68.78</td>
<td>79.92</td>
<td>75.82</td>
<td>81.64</td>
<td>77.15</td>
<td>75.66</td>
<td>73.19</td>
<td>73.99</td>
<td>77.67</td>
<td>72.70</td>
<td>73.30</td>
<td>74.68</td>
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<tr>
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<td>46.80</td>
<td>50.10</td>
<td>50.42</td>
<td>35.49</td>
<td>56.42</td>
<td>61.64</td>
<td>52.88</td>
<td>61.90</td>
<td>61.82</td>
<td>69.24</td>
<td>65.16</td>
<td>54.91</td>
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<tr>
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<td>63.33</td>
<td>62.67</td>
<td>65.29</td>
<td>63.60</td>
<td>66.79</td>
<td>66.00</td>
<td>67.71</td>
<td>70.47</td>
<td>71.73</td>
<td>74.96</td>
<td>74.91</td>
<td>75.03</td>
<td>71.29</td>
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<td>73.61</td>
<td>72.84</td>
<td>61.83</td>
<td>68.38</td>
<td>68.66</td>
<td>76.67</td>
<td>77.55</td>
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<td>77.72</td>
<td>67.58</td>
<td>79.04</td>
<td>67.57</td>
<td>58.95</td>
<td>39.19</td>
<td>62.74</td>
<td>59.07</td>
<td>72.03</td>
<td>73.35</td>
<td>69.93</td>
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<td>45.61</td>
<td>28.46</td>
<td>34.17</td>
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<td>78.19</td>
<td>84.27</td>
<td>85.17</td>
<td>89.03</td>
<td>86.97</td>
<td>85.45</td>
<td>62.91</td>
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<tr>
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<td>62.85</td>
<td>69.63</td>
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<td>83.07</td>
<td>78.71</td>
<td>71.77</td>
<td>69.45</td>
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<td>60.97</td>
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<td>33.47</td>
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<td>65.09</td>
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Table: 6.4 Working Capital to Sales (in times)

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<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Average</th>
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</thead>
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<td>0.65</td>
<td>0.63</td>
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<td>0.66</td>
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<td>Cadila Healthcare Ltd.</td>
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<td>0.32</td>
<td>0.29</td>
<td>0.30</td>
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<td>0.45</td>
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<td>0.62</td>
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<td>0.63</td>
<td>0.65</td>
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<td>1.06</td>
<td>1.00</td>
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Figure: 6.8 Financing of Working Capital (Long Term) (in percentage)
Figure: 6.9 Working Capital to Sales (in times)
Figure: 6.10 Size of Working Capital (Working Capital to Total Assets) (in times)

Aurobindo Pharma Ltd.
Cadila Healthcare Ltd.
Cipla Ltd.
Divi'S Laboratories Ltd.
Dr. Reddy'S Laboratories Ltd.
Glaxosmithkline Pharmaceuticals Ltd.
Glenmark Pharmaceuticals Ltd.
Lupin Ltd.
Piramal Enterprises Ltd.
Sun Pharmaceutical Inds. Ltd.
Industry Average