

A STUDY ON WORKING CAPITAL MANAGEMENT OF PHARMACEUTICAL INDUSTRY IN INDIA

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ABSTRACT

India's domestic pharmaceutical market turnover reached Rs 1.4 lakh crore (US\$ 20.03 billion) in 2019, growing 9.8 per cent year-on-year (in Rs) from Rs 129,015 crore (US\$ 18.12 billion) in 2018. Indian medicines expenditure is projected to increase by 9%-12% over the next five years, making India one of the top 10 medical expenditure countries. India is the world's largest supplier of generic medicinal products, representing 20% of global drug exports generic in India (in terms of volumes). Indian drugs are exported worldwide to more than 200 countries, with the United States as the major market. Indian pharmaceutical companies capitalise in regulated and semi-regulated export opportunities. Pharmaceutical exports from India, including bulk, intermediate, medicinal products, biology, ayush & herbal products and surgical products, reached US\$ 19.14 billion in FY19, and US\$ 13.7 billion in FY20 (up to Jan 2020). This article aims to discuss the working capital management of prominent pharma companies of India.

Keywords: Working Capital Management, Pharmaceutical Company, Current Assets, Current Liabilities, Business Operational Efficiency.

Introduction

The development of the pharmaceutical industry in India can be divided into four phases.

- **Phase-I** The first stage is the period before 1970, when foreign companies with little domestic participation dominated the Indian market.
- **Phase-II** 1970-1990 The second phase is from 1970 to 1990. Several domestic companies began operations during this period. During this period, the Indian Patent Act of 1970 was enacted. During this period, export initiatives were taken. The third stage was 1990 – 2010. During that time, the liberalisation led to Indian components starting operations abroad. The Patents Act was amended in 2005 and product patents were adopted in India.
- **Phase III** 2010-15 • Increased patent filing by pharmaceutical operators • Modification of new sales models like channel management, KAM and CSO (NPPP-2012)
 - 2013: New Drug Pricing Control Order issued by the Food and Drug Directorate, which would reduce drug prices by 80% • 2014: 100% FDI permitted in the medical device industry.
 - Leading Indian pharmaceutical companies raise funds to fund both domestic and international acquisitions to enhance their product portfolios.
 - 2015: India has 10,500 units of manufacture and about 3,000 pharmaceutical companies. • National Health Policy Draft for 2015 on the expenditure of the healthcare sector.

Objectives of the Research

The following are the specific objectives of the study;

- To analyze the working capital position of selected Pharmaceutical Companies in India.
- To analyze the factors influencing the working capital of selected Pharmaceutical Companies in India.

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Data Collection & Sample Design Method

Data will be collected using both primary as well as secondary method.

Among the companies listed with major stock exchange of India namely, Bombay Stock Exchange and National Stock Exchange of India, 5 companies with consistent financial data are selected. Certain companies are excluded owing to irregular and/or inconsistent financial data support.

The following are the selected Pharmaceutical companies of this study:

- Aurobindo Pharma
- Cipla
- Glaxo Smith Kline Pharma
- Lupin Pharma
- Sun Pharma Industries

Scope of the Study

The present study aims at assessing the working capital position of Pharmaceutical Industry in India. The study could help the company as well as the investors to understand its financial efficiency. It aims to help the management to find out its financial problems at present and the specific areas in the business, which might need some effort for more effective and efficient utilization of its resources.

Table 1; Working Capital Aurobindo Pharmaceuticals

Year	Current Assets	Current Liabilities	Working Capital
2015	82,988.00	61,364.00	21,624.00
2016	102,943.50	78,402.20	24,541.30
2017	92,061.80	66,056.00	26,005.80
2018	121,781.60	86,658.90	35,122.70
2019	153,645.10	120,429.00	33,216.10
2020	164,125	113,867.50	50,257.50

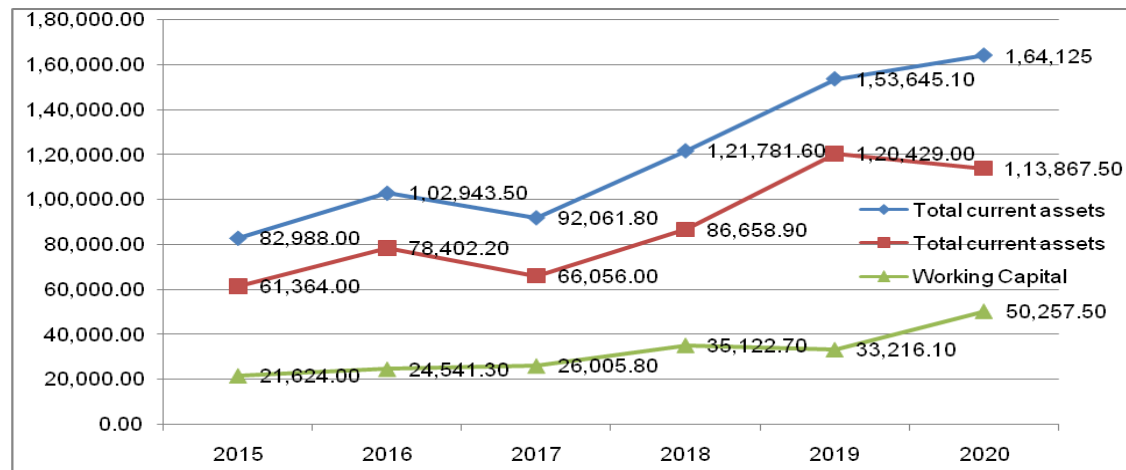


Figure 1

Interpretation

As shown in figure 1 the working capital of the Aurobindo Pharma has been continuously increased from Rs.21624 million to Rs. 50,257.50 million over the past six years from 2015 to 2020. The present position of working capital position of Aurobindo Pharma is good.

Table 2; Working Capital of Cipla Limited

Year	Current Assets	Current Liabilities	Working Capital
2015	8841.23	7776.05	1065.18
2016	8841.23	7776.05	1065.18
2017	8,735.57	3,373.70	5361.87
2018	10,814.10	3,832.22	6981.88
2019	12,426.63	3,771.51	8655.12
2020	4,703.84	4393.14	310.7

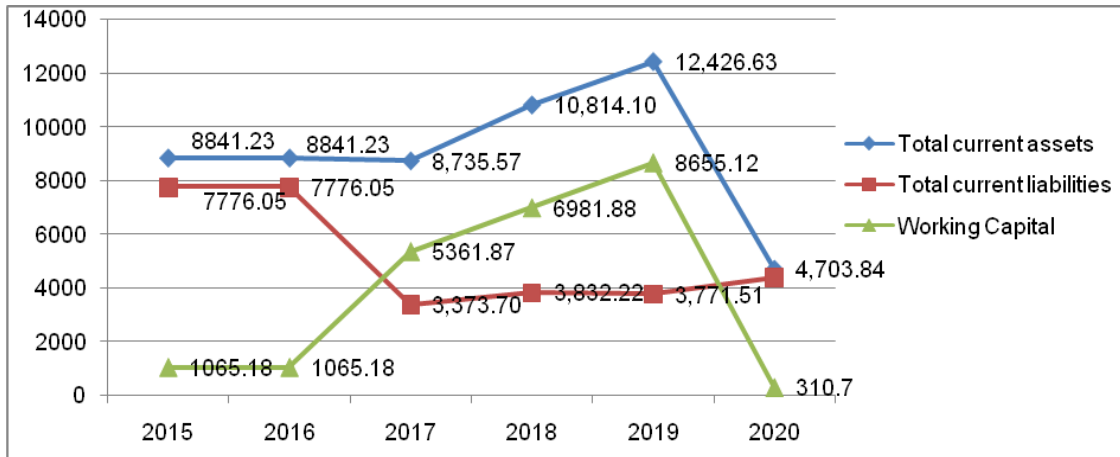


Figure 2

Interpretation

As shown in figure 2 the working capital of the Cipla Limited has been continuously increased from Rs.1065.18 million to Rs.310.7 million from 2015 to 2019 but in year 2020 there was a sudden fall in the working capital that is due to fall in current assets and rise in the current liabilities. The overall working capital position of the Cipla Limited was good till year 2019 but there was a change in the position in the year 2020. Therefore, the company should require to manage in working capital properly in the future.

Table 3: Working Capital of Glaxo Smith Kline Pharmaceuticals Ltd.

Year	Current Assets	Current Liabilities	Working Capital
2015	321566.65	321566.65	0
2016	216797.35	57921.07	158876.28
2017	167261.64	72023.25	95238.39
2018	218147.08	159986.37	58160.71
2019	200613.49	145431.95	55181.54
2020	313554.1	131493.61	182060.49

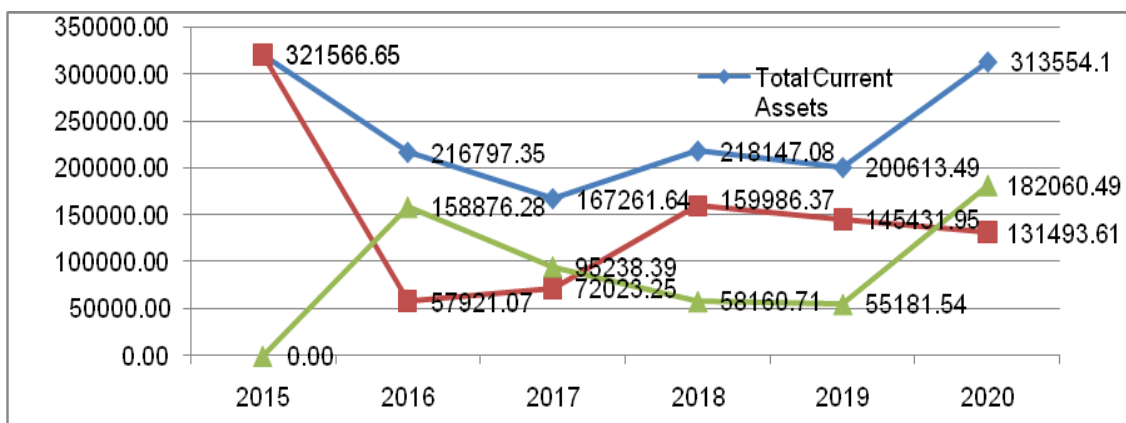
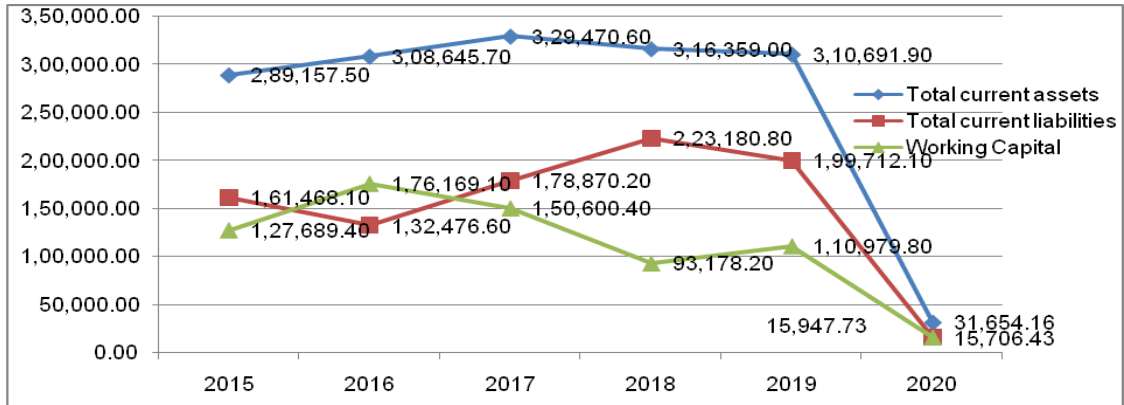


Figure 3

Interpretation: As shown in figure 3 the working capital of the G.S.K. Pharma Limited has been increased from Rs.0 million to Rs.182060.49 million from 2015 to 2019 but in year 2017 & 2019 there was a sudden fall in the working capital that is due to fall in current assets and rise in the current liabilities. The overall working capital position of the GSK Pharm Limited was not so good till year 2019 but there was a change in the position in the year 2020 Therefore the company should require to manage in working capital properly in the future.

Table 4: Working Capital of Sun Pharma Laboratories Limited

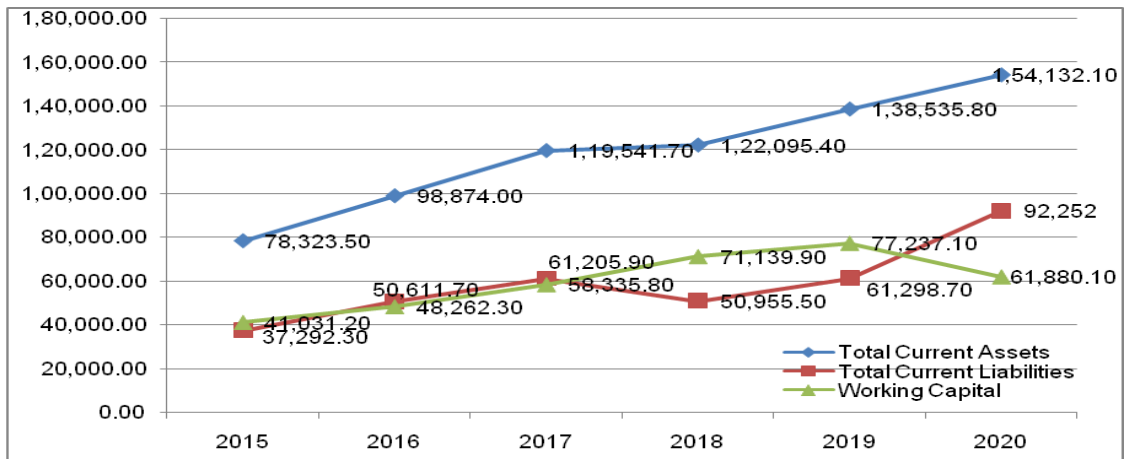
Year	Current Assets	Current Liabilities	Working Capital
2015	289,157.50	161,468.10	127,689.40
2016	308,645.70	132,476.60	176,169.10
2017	329,470.60	178,870.20	150,600.40
2018	316,359.00	223,180.80	93,178.20
2019	310,691.90	199,712.10	110,979.80
2020	31,654.16	15,706.43	15,947.73

**Figure 4**

Interpretation: As shown in figure 4 the working capital of the SPLL has been decreased from Rs.127,689.40 million to Rs. 115,947.73 million from 2015 to 2020 though it was increased in the 2016 but thereafter it falls to 115947.73 million. The overall working capital position of the SPLL was not so good till year 2019 but there was a change in the position in the year 2020. Therefore, the company should require to manage in working capital properly in the future.

Table 5: Working Capital of Lupin Limited

Year	Current Assets	Current Liabilities	Working Capital
2015	78,323.50	37,292.30	41,031.20
2016	98,874.00	50,611.70	48,262.30
2017	119,541.70	61,205.90	58,335.80
2018	122,095.40	50,955.50	71,139.90
2019	138,535.80	61,298.70	77,237.10
2020	154,132.10	92,252	61,880.10

**Figure 5**

Interpretation

As shown in figure 5 the working capital of the Lupin Limited has been increased from Rs.41,031.20 million to Rs.61,880.10million from 2015 to 2020, though in year 2019 it was at its peak. The overall working capital position of the Lupin Limited was not so good till year 2019 but there was a change in the position in the year 2020 Therefore the company should require to manage in working capital properly in the future.

Findings & Conclusion

Indian pharma sector is having the highest profitability and the high working capital requirement for the raw material, employees & labor remuneration and other production direct and indirect activities.

As shown in figure 1 the working capital of the **Aurobindo Pharma Limited** has been continuously increased from Rs.21624 million to Rs 50,257.50 million over the past six years from 2015 to 2020. The present position of working capital position of Aurobindo Pharma is good. In the balance sheets it has observed that the current assets have been increased from Rs. 82,988 million to Rs. 164,125 million.

As shown in figure 2 the working capital of the **Cipla Limited** has been continuously increased from Rs.1065.18 million to Rs.310.7 million from 2015 to 2019 but in year 2020 there was a sudden fall in the working capital that is due to fall in current assets and rise in the current liabilities.

As shown in figure 3 the working capital of the **GlaxoSmithKline Pharmaceuticals Ltd** has been increased from Rs.0 million to Rs.182060.49 million from 2015 to 2019 but in year 2017 & 2019 there was a sudden fall in the working capital that is due to fall in current assets and rise in the current liabilities.

As shown in figure 4 the working capital of the **Lupin Limited** has been increased from Rs.41,031.20 million to Rs.61,880.10million from 2015 to 2020, though in year 2019 it was at its peak. The overall working capital position of the Lupin Limited was not so good till year 2019 but there was a change in the position in the year 2020 Therefore the company should require to manage in working capital properly in the future. As shown in figure 5 the working capital of the **Sun Pharmaceutical Industries Limited** has been decreased from Rs. 127,689.40 million to Rs. 115,947.73 million from 2015 to 2020 though it was increased in the 2016 but thereafter it falls to 115947.73 million. The overall working capital position of the SPIL was not so good till year 2019 but there was a change in the position in the year 2020. Therefore, the company should require to manage in working capital properly in the future.

Therefore, it is hereby concluded that pharmaceutical companies are facing many challenges such as market competition, dependency on import of API the companies instead of it they are managing their overall working capital position very efficiently. They are carrying with the production activities without any breaks. Employees are positive and appreciate the management capabilities in managing the working capital requirement for their company's. The pharmaceutical companies are running in profits and efficiently managing their working capital requirements but looking at the rising competition they need to make drugs at lower cost and should reduce their working capital requirement by shortening their operating cycle. The working capital cycle and the number of working capital show that in some companies the reduction is their but in some companies it is still high. The working capital management is a focus area of the management and all the pharma are trying to reduce the working capital requirement through proper material management, reducing the gap between demand and production & managing their efficient creditor & debtor's cycles.

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