WORKING CAPITAL MANAGEMENT OF TORRENT PHARMACEUTICALS LTD

Jinesh Shah*

ABSTRACT

Through this research paper, the researcher has tried to make the analysis of the Working Capital Management of Torrent Pharmaceutical Ltd. and tried to find out the effectiveness of the working capital management in the organization as whole. Researcher has tried to make the analysis by using different tools like ratio analysis statistical tools by using the secondary datas of the firm.

The researcher has utilized different techniques and tools too to make the analysis effective like Linear Correlation, measures of the dispersion.

The findings of this research identifies that generally management of the working capital of the firm depends on the viability and requirement of the management.

Throughout this research paper the researcher has utilized different ratios for justifying the maintenance of the working capital of the firm and organization as well. Researcher has also utilized the statistical measurement for making the enhancement of the findings of the research throughout the research.

Key Words. : Working Capital, Current Ratio, Liquidity, Torrent Pharmaceutical Ltd.,

* Assistant Professor, Sheth Shree K.J.Patel B.B.A. College, Nani Kadi, Hemchandracharya North Gujarat University, Patan (North Gujarat)

Introduction

Working capital is to be considered as the back born for any firm or industry as well. It can also be treated as the blood of the firm and its respective growth also. The firm has to incur daily expenses which can't be carried forward as in the terms of the liabilities. So to maintain the certain level of the operating efficiency, all the firms maintain the certain level of working capital with the firm so that it can sustain against the sudden or uncertain situation too.

All the firms generally require two types of the funds.

a) Long Term Funds

b) Short Term Funds

Whatever amount is required by the company for acquiring the fixed assets to enhance the production and quality output is treated as the Long Term Funds.

Whatever amount is required to recompense the day to day expense is to be treated as short term funds.

If any firm or organization wants to acquire a loan then also the working capital statement will prove its importance for the organization. It also justifies the firm's reliability for making the payment of the short term liabilities like creditors bills payable etc. too.

Company Profile

Torrent Pharma, the flagship company of Torrent Group, is ranked amongst the top pharma companies of India. It is a dominant player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS) and has achieved significant presence in gastro-intestinal, diabetology, anti-infective and pain management segments.

It has also forayed into the therapeutic segments of nephrology and oncology while also strengthening its focus on gynecology and pediatric segments. Right from pioneering niche marketing in India to earning the sobriquet of 'the Company with the most first launches', Torrent Pharma has always remained ahead of its competition.

Torrent Pharma's competitive advantage stems from its world-class manufacturing facilities, advanced R&D capabilities, extensive domestic network and a widespread global presence.

It has three world-class manufacturing facilities at Indrad (Gujarat), Baddi (Himachal Pradesh) and Sikkim. The facilities are approved by USFDA, WHO, MHRA, TGA and other global regulatory bodies. A new facility is taking shape at Dahej SEZ in Western India, which will cater to the international markets. Torrent Pharma is the sole manufacturer of Insulin Formulations for

Novo Nordisk in India since the early '90s and has also set up a dedicated formulation and packaging facility for Insulin.

It is also amongst the few Indian pharma majors to recognize the importance of research and development in the post 2005 GATT era. Its modern and well-equipped R&D Centre is ranked amongst the best in the country and has a team of highly qualified scientists working on various Drug Discovery and Development projects. The R&D Centre has been approved by USFDA and various other regulatory authorities.

The Indian operations of the company are controlled through well-segregated marketing divisions, strategically structured on specific therapeutic areas. Together, these divisions spearhead the company's dominant position in the various therapeutic segments that it operates in. Recently, Torrent Pharma acquired the branded domestic formulations business of Elder Pharmaceuticals in India and Nepal. The acquisition comprises a portfolio of 30 brands including market-leading brands in the Women's Healthcare, Pain Management, Wound Care and Nutraceuticals therapeutic segments. The transaction will also involve the transfer of employees engaged in sales, marketing and operations of the India Business.

Torrent Pharma has a strong international presence spanning over 70 countries across five continents with over 1200 product registrations. It has wholly owned subsidiaries in USA, UK, Germany, Brazil, Russia, Mexico, Philippines, Australia and other major markets. These wholly owned subsidiaries spearheads the company's entry into several new regulated and semi regulated international markets.

Today, Torrent Pharma, with its state of the art manufacturing and research facilities and a global presence, is all poised to carve a niche for itself in the international pharma arena. It is well set on an exciting growth phase in all directions.

REVIEW OF LITERATURE

Abramovitz and Modigliani (1957): They highlighted the relationship between capacity utilization and inventory investment. Existing stock of inventories was expected to adjust to the desired levels. Thus the variable, existing stock of inventories, was essential to be negatively related with the desired stock. The result was that there is positive relation among the ratio of inventory to sales and inventory investment. High ratio of stocks to sales in the past suggests requirement of high levels of inventories in the past and promising high investment in inventories in the current period also.

R.S. Chadda (1964): Study had been made on inventory management practices of Indian companies. The analysis suggested application of modern scientific inventory control techniques like operations research. These modern scientific techniques furnish opportunities for the companies, Companies can minimize their investment in inventory but there is continuous flow of production. He argued that industrially advanced countries, like, USA, were engaged in developing highly sophisticated mathematical models and techniques for modernizing and redefining the existing tools of inventory investment.

National Council of Applied Economic Research (NCAER 1966) Conducted a study in 1966 regarding working capital management of three industries namely cement, fertilizer and sugar.

This study mainly devoted to ratio analysis of composition, utilization and financing of working capital for the period of 1959 to 1963. The study reveals that inventory constituted a major portion of working capital i.e. 74.06 per cent in the sugar industry followed by cement industry (63.1%) and fertilizer industry (59.58%). It was observed that inventory had not managed properly. So far as the utilization of working capital was concerned, cement and fertilizer industry had better implementation of working capital. The sugar industry had huge accumulation of stocks so there was inefficient utilization of working capital heavily.

Welter (1970) He stated that working capital originated because of the global delay in making payment for purchase of raw material and receiving amount for the sale of finished product. He recognized that working capital can be reduced through most fashionable information from computers and improved professional ability of management. Reduction in length of global delay can lead decreased working capital. Global delay can be minimized through favorable redistribution of this global delay among the different delay centers.

V. Appavadhanulu (1971) Identified lack of attention being given to working capital, less amount is invested. He analyzed working capital management by examining the impact of method of production on working capital investment. Various production techniques require different amount of working capital, mainly because different techniques have specific length of production period, the rate of output flow per unit of time and time pattern of value addition.

Warren and Shelton (1971) Applied financial simulation to assume future financial statements of a firm based on a set of simultaneous equations. Financial simulation approach makes it possible to make a link between uncertainty of future and interrelationships among current assets, current liabilities and other balance sheet accounts.

Weston and Brigham (1972) The second proposition which had been suggested by Walker was further extended. Debt was divided into long-term debt and short-term debt. Short-term debt is suggested to be used instead of long-term debt whenever their use would lower the average cost of capital to the firm. The study also advised a business to hold short-term marketable securities only after meeting short-term debt obligations. They further suggested that current assets holding to be strengthened to the point where marginal returns on increase in these assets would equal to the cost of capital required for financing such increases.

George (1972) It was the study on cross section analysis of balance sheet data of 52 public limited companies for the period of 1967- 70. Accelerator, internal and external finance variables were considered in the formulation of equations for raw materials including goods-in-process inventories. However, equations for finished goods inventories conceive only output variable. Deliberation was given on accelerator and external finance variables.

Chakraborty (1973) Approaching working capital as a segment of capital employed rather than a mere cover for creditors. He emphasized that working capital is the required fund to pay all the day-today operating expenses while running a business. He concluded that return on capital employed is an overall measurement of efficiency for running a business. Return on capital can be affected negatively by excess amount of working capital. In the same way very little working capital invested may reduce the earning capacity of the fixed capital employed over the succeeding periods.

B.S. Sharma (1974) The paper considered problems of financial planning in public undertakings in three stages of operation, i.e. gestation, operation and expansion. The study covered purposive sample of units initiated by the Central Government and which are administered by Fertilizer Corporation of India ,Hindustan Steel Limited, Bokaro Steel Limited, Heavy Electricals Limited, Bhopal, Bharat Heavy Electricals Limited, New Delhi, Heavy Engineering Corporation Limited and Mining and Allied, Machinery Corporation Limited. He also focused on the art of working capital management in these enterprises. The result shows that requirement of working capital grows continuously.

DK Desai & V Ramachandran (1974) This paper estimates required working capital for the purposes of procurement and distribution of food grains. Estimates of the marketed surplus are needed to identify financial requirements of food grains. Assumption of a certain percentage of the total food grains production as the marketed surplus was avoided; a different technique was used to estimate the marketed surplus. By considering the prices and stocks of food grains required at the beginning of the month and the marketed surplus of food grains the working capital requirements were estimated for different years. Working capital estimates for food grains shows that the available bank credit met only 38% of the maximum working capital required in 1972-1973. Food grain distribution has to rely on non-banking sources, not getting help from banking sources. It increases cost of financing working capital and finally raises the price of food grains.

Mishra (1975) It is the study of six major public sector enterprises. He concluded that (i) inventory constitutes the most important component of working capital of public enterprises (ii) efficiency of working capital funds employed in receivables is terribly low in the selected enterprises and (iii) In all units both the current assets and the quick ratios are greater than their standards. Enterprises need proper control on receivables.

SK Bhattacharya & M Raghavacahari (1977): The study consisted of 72 large Indian companies. Many financial analysts have confidence on traditional financial ratios for finding out effectiveness of working capital management. They correlated corporate performance with the ideal ratios. The present study examined the validity of such practices and to identify a method for classification of those companies which manage their working capital more effectively than others. Discriminant Analysis shows that the important ingredients of effective working capital management are (a) profit after tax as a percentage of sales (b) sales as number of times of total assets and (c) Quick assets as a percentage of current liabilities and (d) receivables as number of days' sales. They recommended that these variables should be considered while planning and information systems of companies for effectiveness of working capital management.

Lambrix and Singhvi (1979): Adopted working capital cycle approach in working capital management, also suggested that investment in working capital can be optimized and cash flows can be improved by reducing the time frame of physical flow starting from the receipt of raw material to the shipment of finished goods, i.e. inventory management, and by improving the terms and conditions on which firm sells goods as well as receipt of cash.

Lal (1981): He studied Modi Steels Limited as a case study, his study focused on inventory management. He originated a model which involve price variable in inventory management; earlier price variable in inventory was not considered in that company. The analysis recommended solid policies, which would look after internal and external factors, ultimately it would help in bringing in efficient working capital management.

Mark L Defond (1994): Examined a sample of 94 firms. The paper discovers abnormal accruals that reported debt convenant restrictions to influence accounting choices in the preceding and the year of violation. Time-series and cross–sectional models were used in estimating normal accruals. In the year prior to violation, both models indicate that abnormal total & working capital accruals are significantly positive.

I M Pandey (1997): Studied private sector manufacturing companies of Sri Lanka. The survey provided an empirical evidence of working capital management policy and practices. Information was gathered through questionnaires and interviews from chief financial officers of manufacturing companies listed on Colombo Stock Exchange. The main result of the study is that most companies in Sri Lanka are adopting informal working capital policy. Managing director plays a unique part in formulating formal and informal policy. Company size has an influence on the overall working capital policy (formal or informal) and approach (conservative, moderate or aggressive) & review period. The study concluded that company profitability has an influence on the methods of working capital planning and control.

The above summarized review of studies in India and abroad reveals that a large number of studies have been undertaken on national and international level on the topic of efficiency in working capital management, working capital management & profitability and working capital management practices. Though some studies have been undertaken on pharmaceutical industry of India but no appropriate study has been conducted to evaluate the efficiency and effectiveness of management of working capital. Though working capital is a significant constituent in the efficient functioning of the organization, it has not attracted much attention and consideration of management. Aforementioned studies which have been undertaken, so far, have exercised philosophical influence on the understanding of a few working capital management. Hence, there exists some definite research gap and this study approximately titled, "Management of Working Capital in Pharmaceutical Industry: A Comparative Study" is an endeavor which will help to plug this gap up to some extent.

Research Questions

1) To know the working capital management of Torrent Pharmaceuticals Ltd.
2) The variations of maintaining the working capital of the firm since last five years.
3) To examine the relationship between the liquidity and profitability of the firm.

Scope of the Study

The scope of the study is limited for the firm and organization of Torrent Pharmaceuticals Limited only and related to the last five years datas is the duration period of the research.

Significance of the Research Study

The research study will be implied for the pharmaceutical companies for the future study also. The major impact of this study will be implied in the pharmaceutical industry as whole and hence indirect or directly it will give the impact to the Economy of the country also.

Objectives of the Study.

1) To study the current working capital position of Torrent Pharmaceuticals Ltd.
2) To study the current credit tendency of Torrent Pharmaceuticals Ltd.
3) To study the current trend of the working capital of Torrent Pharmaceuticals Ltd.

Hypothesis of the Study.

The researcher has applied last five years data of the study of Torrent Pharmaceuticals Ltd. for the research. The following hypothesis will be applied for the research.

H_0= There is no significance difference between the liquidity and profitability of the Cadila Healthcare Ltd.

H_1=There is a significant difference between the liquidity and profitability of the Cadila HealthCare Ltd.

Research Methodology

Sample Design: On Judgmental Basis

Source of Data: Annual Report of the Company, Financial Web Sites like moneycontrol.com

Types of Research Data: Secondary Data

Duration of Data: 2009-10 to 2013-14

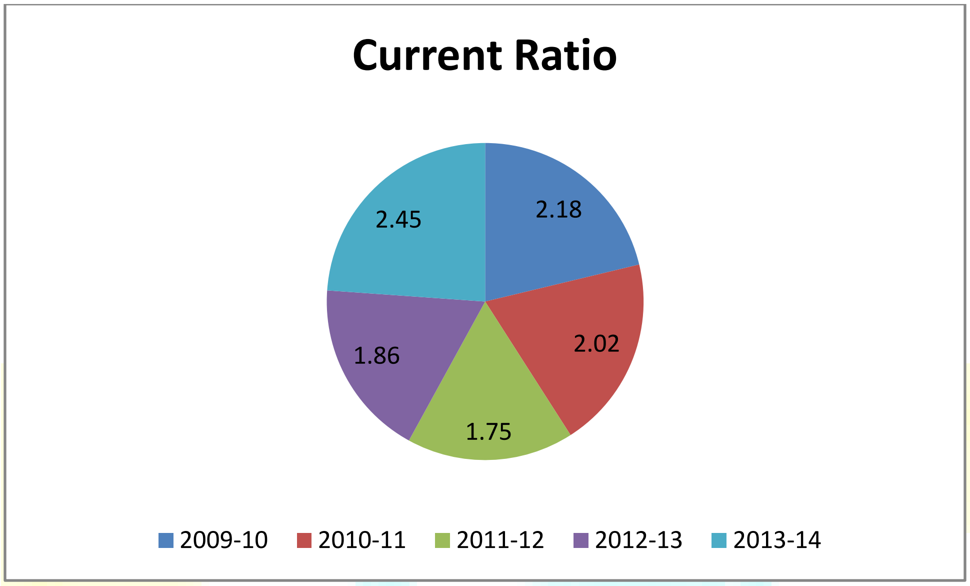
Statistical Tool: For the analysis the researcher has utilized the ratio analysis, standard deviation CO-efficient of Variance.

Results and Analysis

Particulars		Amt in Crore in INR				
	Current Assets	2009-10	2010-11	2011-12	2012-13	2013-14
Stock		227.88	342.83	393.12	697.09	694.51
Debtors		259.78	340.01	409.61	831.27	1317.43
Cash Balance & Bank Balance		11.62	22.79	43.56	277.76	218.49
Fixed Deposits		335.17	242.53	323.12	0	0
Advances		164.05	200.53	275.06	291.24	436.65
	Total Current Assets	**998.50**	**1148.69**	**1444.47**	**2097.36**	**2667.08**
	Current Liabilities					
Current Liabilities		375.18	464.44	708.28	846.21	874.48
Provision		82.55	105.12	119.32	278.85	213.59
	Total Current Liabilities	**457.73**	**569.56**	**827.60**	**1125.06**	**1088.07**
Net Working Capital Required		**540.77**	**579.13**	**616.87**	**972.30**	**1579.01**
	Current Ratio	**2.18**	**2.02**	**1.75**	**1.86**	**2.45**

Variable	% of Current Assets				
	2009-10	2010-11	2011-12	2012-13	2013-14
Stock	22.82%	29.85%	27.22%	33.24%	26.04%
Debtors	26.02%	29.60%	28.36%	39.63%	49.40%
Cash Balance & Bank Balance	1.16%	1.98%	3.02%	13.24%	8.19%
Fixed Deposits	33.56%	21.10%	22.37%	0.00%	0.00%
Advances	16.43%	17.47%	19.04%	13.89%	16.37%

Variable	% of Current Liabilities				
	2009-10	2010-11	2011-12	2012-13	2013-14
Current Liabilities	81.97%	81.54%	85.58%	75.21%	80.37%
Provisions	18.03%	18.46%	14.42%	24.79%	19.63%



Basic Terms of the following Table:

TATR: Total Assets Turnover Ratio

WCTR: Working Capital Turnover Ratio

WCSR: Working Capital to Sales Ratio

Year	Working Capital	Current Ratio	Liquid Ratio	TATR	WCTR	WCSR
2009-10	540.77	2.18	1.65	1.03	2.67	0.38
2010-11	579.13	2.02	1.39	1.06	3.03	0.33
2011-12	616.87	1.75	1.25	1.19	3.38	0.30
2012-13	972.30	1.86	1.24	1.24	2.85	0.35
2013-14	1579.01	2.45	1.81	1.04	2.13	0.47
Arithmetic Mean	**857.616**	**2.052**	**1.468**	**1.112**	**2.81**	**0.36**
Std. Dev.	**438.60**	**0.28**	**0.25**	**0.10**	**0.46**	**0.07**
C.V.	**51%**	**13%**	**17%**	**9%**	**16%**	**18%**

Findings

- The average size of working capital of the firm since last five years is 857.62 crore which shows the sound situation of the firm.
- The average current ratio of the firm since last five year is 2.05 in approx which is sound and better as reviews of the Tondon committee.
- The liquid ratio of the firm also shows the better position of the firm for short term future also.
- The company's result shows on an average of 9% return on the investment of the current assets which shows the worst result of the firm and shows the ineffective output of the current assets.
- The average working capital has been utilized from the generation of revenue at only 18% which shows dissatisfactory result.

Conclusion

- As from the viewpoint of the researcher, the company is maintaining enough working capital as to be standardized by Tondon committee. But if we talk about the return of the invested made by the company in the working capital, it seems to be little bit pathetic position for the company as only 9% return could be generated by the firm from its investments in the working capital.
- The return of the company of the investments through working capital also does not generate the efficient output as compare to the expectancy of the industry as whole.
- The company maintains the level of working capital and the level of current ratio with the expected performance level as idealized by Tondon committee.

Limitations of the Study

- The study has been done only of the datas of last five years. No past records have been included.
- The study is based on strictly secondary data and no primary datas have been included in the study.
- The study has been conducted only of the single unit and the results will be affecting only to the single firm or unit.

- The researcher has utilized the financial and company website for his research so the level of trustworthiness depends upon the datas those have been provided in the said mentioned web sites

Bibliography

http://www.torrentpharma.com/mission%20vision%20values.php

http://www.moneycontrol.com/financials/torrentpharmaceuticals/balance-sheet/TP06#TP06

Pandey M.I. 9th Edition, Financial Management, Vikas Publishing House Pvt. Ltd. (pg. 581-582)

Researchers World -Journal of Arts, Science & Commerce

Kishore M. Ravi, Financial Management, 6th edition Taxmann,

http://en.wikipedia.org/wiki/Corporate_finance#Working_capital_management

http://en.wikipedia.org/wiki/Cadila_Healthcare

International Refereed Research Journal, www.researchersworld.com, Vol.–IV, Issue–3, July 2013