

Study on the Working Capital Management Efficiency in Indian Pharmaceutical Distribution

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Abstract— Among all the problems of financial management, the problems of working capital management have probably been recognized as the most crucial one. It is because of the fact that working capital always helps a business concern to gain vitality and life strength. The objective of this study is to evaluate the importance of working capital management as practiced in the selected firms of the Pharmaceutical industry. But the study does not examine the political and economic impacts on the working capital management.

Keywords: Working capital management, Liquidity, Efficiency, Investment criteria, Credit worthiness.

I INTRODUCTION

This paper empirically investigates the relationship between the components of working capital and firms' profitability of firms in Indian pharma industry. We undertake profitability (ROA) as a dependent variable and the inventory conversion period (ICP), the average collection period (ACP), the average payment period (APP), and the cash conversion Cycle (CCC) are used as independent variables, and are considered for measuring working capital management. The data was taken from secondary data source named as "Industry; financial aggregates and ratios" Working capital management refers to all management decisions and actions that ordinarily influence the size and effectiveness of the working capital. It is concerned with the most effective choice of working capital sources and the determination of the appropriate levels of the current assets and their use. It focuses attention to the managing of the current assets, current liability and their relationships that exist between them. In other words, working capital management may be defined as the management of a firm's liquid assets viz-cash, marketable securities, accounts receivable and inventories.

The inefficient management of working capital not only reduces profitability but ultimately may also lead a concern to financial crisis. On the other hand, proper management of working capital leads to a material savings and ensures financial returns at the optimum level even on the minimum level of capital employed. We also know that both excessive and inadequate working capital is harmful for a firm. Excessive working capital leads to un-remunerative use of scarce funds. On the other hand inadequate working

capital usually interrupts the normal operations of a business and impairs profitability. There are many instances of business failure for inadequate working capital. Further, working capital has to play a vital role to keep pace with the scientific and technological developments that are taking place in the concerned area of pharmaceutical industry

PHARMA INDUSTRY

The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value, and it accounts for 20 per cent in the volume terms and 1.4 per cent in value terms of the Global Pharmaceutical Industry as per a report by Equity Master. India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume. Of late, consolidation has become an important characteristic of the Indian pharmaceutical market as the industry is highly fragmented. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the antiretroviral drugs used globally to combat AIDS (Acquired Immuno Deficiency Syndrome) are supplied by Indian pharmaceutical firms. Indian pharmaceutical sector is estimated to account for 3.1 – 3.6 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms. It is expected to grow to US\$100 billion by 2025. The market is expected to grow to US\$ 55 billion by 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size, as stated by Mr Arun Singh, Indian Ambassador to the US. Branded generics dominate the pharmaceuticals market, constituting nearly 80 per cent of the market share (in terms of revenues). The sector is expected to generate 58,000 additional job opportunities by the year 2025.

INVESTMENTS

The Union Cabinet has given its nod for the amendment of the existing Foreign Direct Investment (FDI) policy in the pharmaceutical sector in order to allow FDI up to 100 per cent under the automatic route for manufacturing of medical devices subject to certain conditions.

The drugs and pharmaceuticals sector attracted cumulative FDI inflows worth US\$ 15.570 billion between April 2000 and September 2017, according to data released by the Department of Industrial Policy and Promotion (DIPP).

Some of the major investments in the Indian pharmaceutical sector are as follows:

The exports of Indian pharmaceutical industry to the US will get a boost, as branded drugs worth US\$ 55 billion will become off-patent during 2017-2019.#

Private equity and venture capital (PE-VC) investments in the pharmaceutical sector have grown at 38 per cent year-on-year between January-June 2017, due to major deals in this sector.

References: *Consolidated FDI Policy, Department of Industrial Policy & Promotion (DIPP), Press Information Bureau (PIB), Media Reports, Pharmaceuticals Export Promotion Council*

II REVIEWS OF LITERATURE

Biswajit Bose (2013) found that out of seven ratios (such as working capital turnover ratio, net current assets to total assets ratio, inventory turnover ratio, cash position ratio, current ratio), only cash position ratio has positive influence on return on total assets and the remaining has negative correlation with return on total assets and also found that return total assets is negatively associated with days of working capital.

A questionnaire survey by Smith and Sell [see “Working Capital Management in Practices” published in 1978] indicate that 68% of the respondent firm used either cost balancing models or computerized inventory control. The survey evidence reports that the basic models of inventory management are widely used.

III OBJECTIVES

1. To determine whether there is significant relationship between Inventory Commission Period (ICP) and profitability of firm.
2. To justify with the all types of categories medicine and their distribution with the help of working capital functioning method.

IV RESEARCH METHODOLOGY

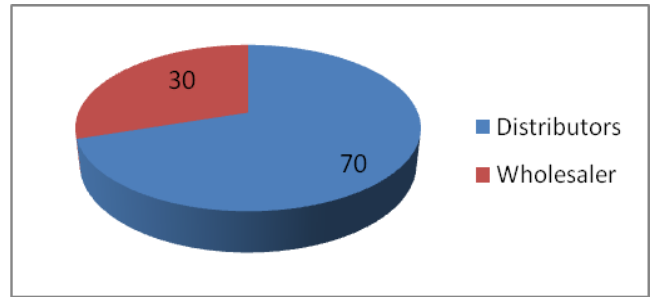
The present study is based on Primary and secondary data , collected as a feedback from wholesalers through questionnaire

Analysis

Is the financial year 2017-2018 significant for inventory commission period and profitability?

Respondents	No
Distributors	70
Wholesaler	30
Total	100

(Source : Primary Data)

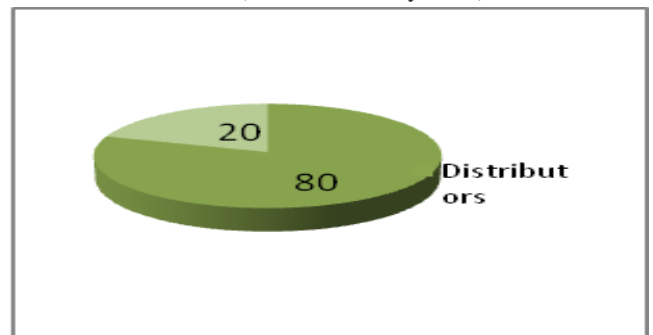


The above results depicts that respondents from distributors are confirmed with the 70 % as the significant for inventory commission period and profitability. Whereas 30 % marked for the same.

You have been maintaining all categories of medicine for distribution.

Respondents	No
Distributors	80
Wholesaler	20
Total	100

(Source: Primary Data)



Majority of the respondents from wholesaler who has marked with 80% for maintaining their working capital cycle. Whereas distributors marked 20% for the working capital.

V CONCLUSION

Pharmaceutical Industry in our country is a profitable sector. It is due to the reason that the firms in the industry are very competitive and has gained efficiency in managing its resources competently. The impact of overall working capital policy on profitability in this industry is proved to be significant and the ratios related to working capital can explain the differences between the firms. A positive correlation has been found between current asset management and financial performance of Pharmaceutical firms. Thus it is evident that for the overall performance of this industry, working capital plays a vital role.

Our findings from the questionnaire, indicates that the sample firms in the industry have been efficient in managing Cash, Account Receivables and Payables. For this industry, maintaining large volume of Inventory doesn't reflect inefficient management and profit margin is depending upon the retailer's paying period. If he is paying cash, he will get cash

discount and if he is paying after a week, profit margin for whole seller will be like that. In simple words, price to be charged by the whole seller depends on the time period of payment by retailers.

Thus the bottom line is that the firm's industry should be cautious in formulating Working Capital policies

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