Evaluation of Working Capital Management in Sun Pharmaceutical Industries Ltd.

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***Abstract*:-This paper explains about the working capital management of the business. Working Capital means the capital or the amount which is required for operating a day to day business. On the basis of concept working capital means the total current assets of the business, Current assets are those assets which can be easily converted into cash in the business within a year. The need of working capital or operating capital differs from business to business, because it depends upon the nature and objectives of the business. The main objective of this paper is to analyze the concept of current assets, current liabilities, Liquid assets and working capital of SUN PHARMACEUTICAL INDUSTRIES LTD. And also to find out the relationship between working capital and performance of the business. This research attempt to measure the changes of working capital for the period of 5 years from 2013 to 2017. To analyze the above objectives the following statistical tools are used such as Descriptive statistics and correlation analysis. Therefore, this research concludes that efficient working capital management is important for the profitability of the company.**

***Keywords*: working capital, current assets, current liabilities, Liquid assets, correlation analysis, profitability, operating capital**

I. INTRODUCTION

Capital is considered as a life blood of a business. For human being blood is very important for survival of life, similarly finance is very important for survival of a business. Each and every business needs money basically for two purposes. Based on the purpose capital are classified into two. They are

- Fixed capital and
- Working capital

Fixed capital means the capital which is required for establishment of business.

Working capital means the capital which is required for day to day operation of the business.

II. WORKING CAPITAL CYCLE

Working cycle means the time gap between converting cash into cash. Working Capital Cycle is involved in all type of business. For manufacturing business Working capital cycle means purchasing of Raw material to selling of finished goods. For Trading concern Working Capital Cycle Purchase of goods and realization of cash in the form of sale.

This paper enables us to examine the factor responsible for significant changes in Working capital during the period form 2012-13 to 2016-17.

III. REVIEW OF LITERATURE

Pandey and Upadhyay (2007) This study evaluates the efficiency of Working Capital Management in Bokaro Steel Plant during the period from 1999 to 2005 result shows that position of payment of liability was satisfactory and the inventory management & receivable was good.

Dr. (Mrs.) Asha Sharma, Assistant Professor, Department of Commerce, MPGMJNVU, Jodhpur (2013) This article analyze the relationship between liquidity, profitability and efficiency of the steel industry in Indore. It measures the financial performance of companies by using some important ratios. The result shows that positive relationship between two variables.

Shikhdon and Kavale (2016) carried out a survey to establish the liquidity management factors affecting in financial performance of the commercial banks in Mogadishu, Somalia. Descriptive study design was used based on a population of 112 employees of commercial banks in Mogadishu. A purposive sample of 87 respondents was selected for the questionnaire instrument that was used in data collection.

The key findings were that liquidity management drivers individually had a positive influence on the financial performance of commercial banks in Mogadishu-Somalia. The overall results indicated that there was a significant linear relationship between debtors' management, creditors and cash management on financial performance of commercial banks in Mogadishu. This study gives useful insights from Somalia. The method used is however not good because it relies on a questionnaire when secondary data from financial statements of the banks would have provided a better measure of financial performance as well as liquidity.

IV. OBJECTIVES OF STUDY

- To analyze the Working Capital through the concept of Current asset, Current liabilities and Liquid assets
- To identify the items responsible for changes in Working capital position of TVS Srichakra limited

- To find out the relationship between Working capital and performance of the company.

V. HYPOTHESIS

In order to achieve these objectives the following hypothesis is framed.

1. **Null Hypothesis:** There is no significant difference in the Working capital position of TVS Srichakra during the period of study.

Alternative Hypothesis: There is a significant difference in the Working capital position of TVS Srichakra during the period of study.

2. **Null Hypothesis:** There is no significant relationship between working capital and financial performance of the company.

Alternative Hypothesis: There is significant relationship between working capital and financial performance of the company.

VI. METHODOLOGY OF THE STUDY

Research Design: Descriptive Research Design.

Research: Analytical Research

Period of the study: 5 years (2013- 2017)

Data collection: Primary data and Secondary data.

Tools for Analysis: Descriptive statistics and correlation analysis.

VII. ANALYSIS AND INTERPRETATION

For analyzing the working capital of TVS Srichakra Limited from the year 2013 -14 to 2016-17.The following ratio are considered such as Current ratio, Liquid ratio, Absolute Liquid ratio and working capital ratio.

Current Ratio:

The Current Ratio measures the firms' short term solvency and it indicates the availability of current assets to repay the current liabilities. High Current ratio is mainly used to give an idea of the company ability to payback its liabilities with its assets. The ideal current ratio is 2: 1. If the current ratio is less than the ideal ratios, then it represent the liquidity position of the firm is not good.

year	Current assets	Current liabilities	Current ratio	Working capital
2013	524.94	487.46	1.077	37.48
2014	504.56	488.25	1.033	16.31
2015	410.64	405.04	1.014	5.6
2016	429.25	390.27	1.099	38.98
2017	691.87	673.57	1.027	18.3
Mean	512.252	488.92	1.05	23.34
Standard Deviation	111.464	112.767	.0362	14.44
CV	21.75	23.06	3.45	61.88
Growth %	5.68	6.68	- .95	- 13.35
Avg. Annual growth	1.14	1.34	0.19	- 2.67

Interpretation:

As per the above table number 1, it is found that current ratio is not satisfactory during the study period in all years the current ratio is less than 2: 1.The current ratio is showing a decreasing trend from 2013 to 2015 but in the year 2016 the current ratio is 1.099 again in the year 2017 it is decreased by 0.072.

Liquid ratio:

The quick ratio or acid test ratio refers to the ability of the firm to pay its long-term obligation as and when they become due. The liquid asset includes all the current assets expect stock and prepaid expenses. The ideal ratio is considered as 1: 1. It measures the firm capacity to pay off its current obligation immediately.

Year	Liquid assets	Current liabilities	Liquid Ratio
2013	280.09	487.46	.576
2014	221.32	488.25	.453
2015	200.8	405.04	.496
2016	297.91	390.27	.763
2017	271.77	673.57	.403
Mean	254.38	488.91	.536
Standard Deviation	41.298	112.767	.140
CV	16.23	23.065	26.12
Growth %	- .60	6.68	- 6.86
Avg. Growth %	-0.12	1.34	- 1.37

Interpretation:

As per the above table number 2, it is found that Quick ratio is not satisfactory during the study period in all years the Quick ratio is less than 1: 1.The Quick ratio is showing a decreasing trend from 2013 to 2015 but in the year 2016 the Quick ratio is 0.763 again in the year 2017 it is decreased by 0.403.

Absolute liquid ratio

This ratio is calculated to find out the firms capacity to repay current obligation immediately. The absolute liquid ratio is calculated by dividing absolute liquid assets by current liabilities. Absolute liquid assets include cash in hand, Bank balance and Marketable securities. The ideal ratio is 5:1.

Year	Absolute liquid assets	current liabilities	Absolute liquid ratio
2013	44.89	487.46	.0921
2014	7.94	488.25	.0163

2015	9.42	405.04	.023
2016	12.30	390.27	.0316
2017	9.37	673.57	.014
Mean	16.784	488.92	.034
Standard deviation	15.79	112.765	.0320
CV	94.08	23.06	94.11
Growth %	-26.90	6.68	-31.39
Avg. Annual %	-5.38	1.34	- 6.28

Interpretation:

As per the above table, it is found that the absolute liquid ratio is not satisfactory during the study period in all years; the absolute ratio is less than .5:1. The Absolute ratio is showing decreasing trend from 2013 to 2015 but in the year 2016 is 0.0316 again in the year 2017 it is decreased by 0.014.

Testing of Hypothesis:

In this study the hypothesis has been analyzed by Karl –Pearson co-efficient correlation. This tool is used to find out the relationship between working capital and profit after tax.

		Profit after tax	Working Capital
Profit after tax	Pearson correlation	1	.283
	Sig(2 – tailed)		.645
	N	5	5
Working Capital	Pearson correlation	.283	1
	Sig(2 – tailed)	.645	
	N	5	5

Interpretation:

From the above table it reveals that working capital has a significant relationship with the performance of the company.

VIII. CONCLUSION AND RECOMMENDATION

The study aims at examining the relationship between working capital and profitability of the company from 2013 to 2017. Through descriptive statistics and correlation analysis, at 5% significance level, this study has found significant positive relationship between working capital and performance of the company. In general, the variables of working capital management may have some clear short-term impacts but do not have enough force in the long run. For the betterment of short term solvency the company should try to reduce its current liabilities. The current assets of the company were not properly utilized in the year 2016. Hence it suggested that some proper steps to be taken by the company to utilize its current assets efficiently and to improve the composition of the current assets. Therefore, it can be concluded that financial managers will be able to create value for their shareholders through the efficient management of working capital by exploiting the relationships between profitability and working capital.

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