

A STUDY ON WORKING CAPITAL MANAGEMENT AT BIOCON LTD

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ABSTRACT

This is a study conducted to focus on the short term financial management or working capital management. Working capital refers to that part of the firm's capital which required for financing short term or current asset. Adequate amount of working capital is required by the firm in the form of different activities to continue uninterrupted and to tackle problems that may arise. Financial viability structure and utilization of working capital in the company is analyzed for five years from 2016-2020.

The study is mainly based on the secondary data. Ratios and statement of changes in working capital are the tools used for the study. The interpretations are summarized and suggestions are provided based on it.

The data was collected from secondary source an interaction with the senior executive of the firm and official website of BIOCON Limited, Annual Reports of BIOCON Limited. Based on the analysis, suitable suggestions /recommendations have been specified to the firm.

Main purpose of study is to identify the impact of Working capital management of BIOCON Limited From 2015-2016 to 2019-20 (5 years), Ratio analysis and trend analysis are preferred to determine the financial condition and performance of BIOCON.

CHAPTER I

INTRODUCTION

Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted in to cash within one year without undergoing a diminution in value and without disrupting the operation of the firm.

The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. The excess of ‘current assets’ of a business organization over its ‘current liabilities’ is termed as the ‘working capital’ of that organization.

The major current assets are cash, marketable security, account receivable and inventory. Current liabilities are those liabilities which are intended, at their inception, too be paid in the ordinary course of business, within a year, out of the current assets or earning of the concern. The basic current liabilities are account payable, bills payable, bank overdraft and outstanding expenses.

INDUSTRY PROFILE

Introduction

India is the largest provider of generic drugs globally. Indian pharmaceutical sector supplies over 50% of global demand for various vaccines, 40% of generic demand in the US and 25% of all medicine in the UK.

India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers with a potential to steer the industry ahead to greater heights. Presently, over 80% of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

Market Size

Indian pharmaceutical sector is expected to grow to US\$ 100 billion, while medical device market is expected to grow US\$ 25 billion by 2025. Pharmaceuticals export from India stood at US\$ 16.3 billion in FY20. Pharmaceutical export includes bulk drugs, intermediates, drug formulations, biologicals, Ayush and herbal products and surgical. As of November 2020, India exported pharmaceuticals worth US\$ 15.86 billion in FY21. Pharmaceutical exports from India stood at US\$ 16.28 billion in FY20 and US\$ 2.07 billion in October 2020.

COMPANY PROFILE

We are a global biopharmaceutical company changing patients' lives in over 120 countries by finding new and affordable ways to treat diabetes, cancer and autoimmune diseases.

Biocon India Pvt. Ltd. is incorporated as a joint venture between Kiran Mazumdar-Shaw and Biocon Biochemicals Ltd. Ireland. Starting with three employees in a rented shed in Koramangala, suburban Bangalore. Biocon began manufacturing and exporting Papain, a plant enzyme, and Isinglass, a marine hydrocolloid – both, key products for the brewing industry.

Biocon's first export was Papain, a plant enzyme derived from Papaya, to U.S. and Europe, signalling the company's ambition to produce high quality, world class products in India for global markets.

Biocon acquires a 20-acre plot on Hosur Road, Bangalore for INR 600,000 to expand operations. On March 8th, 1980, the foundation stone was laid for the building that currently houses the company's corporate office.

VISION

We have an ambitious vision for tomorrow which, when realised, will improve millions of lives for the better. Our people are key to making this happen. By putting our employees first, we empower them to build more fulfilling lives and achieve a better work-life balance. In doing so, we also help them stay driven and committed to contributing to this goal.

RESPONSIBILITY

Biocon Foundation is committed to improving lives and empowering the underserved communities for a better tomorrow. The Foundation's fundamental purpose is to make a positive and lasting impact on the health and education of communities to inspire the development of a knowledge based, sustainable society.

CHAPTER – 2

REVIEW OF LITERATURE

Rafuse [1] studied that suppliers were not interested in interest, rather they wanted their money. His more suggestions was that improvement of working capital by delaying payment to creditors was an inefficient and ultimately damaging practice, both to its practitioners and to the economy as a whole. He suggested that those seeking concentrated working capital reduction strategies should focus on stock reduction.

Eljelly [2] analyzed that liquidity management involves planning and controlling of current assets and current liabilities so that it can eliminate the risk of inability to meet short-term obligations and avoids much investment in these assets. Current ratio, regression analysis and correlation have been used to measure the result. The study found that the cash conversion cycle was of utmost important as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have a major effect on profitability at the industry level. It was clear that there was an adverse relationship between

profits of the firm and liquidity position indicators such as current ratio and cash gap in the Saudi sample examined.

Padach [3] analyzed that management practices are expected to assist managers in identifying zones where they might require improvement in the financial performance of their operation. The results provided owner-managers with information relating to the basic financial management practices used by their peers and their peers attitudes toward the selected practices. The working capital requirements of an organization change over times as does its internal cash generation rate.

Raheman and Naser [4] examined the working capital management and profitability position of Pakistani firms. An example of 94 Pakistani firms recognized on Karachi Stock Exchange for a period of 6 years from 1999 to 2004. The results indicated that there is an adverse relationship between variables of working capital management and profitability.

Solano et al [10] reviewed the effect of working capital management on SME profitability. To achieve the objective 8872 small to medium sized companies have been taken for the period over 1996-2002. Panel data methodology has been adopted and found that if cash conversion cycle will small it will help in improve the firm profitability. So, the managers of the firm should try to reduce their inventories and the number of days for which their accounts are outstanding.

Kaushik Chakraborty [5] checked the various studied done on management of working capital and its components. The studies related to working capital management as a whole would necessarily discuss the individual components of working capital and thus exclusive studies on individual factors of current assets and current liabilities were found to be very few. A deeper look into survey indicated that there were only a few studies available abroad and plentiful of studies in India. The survey also revealed that, though a few

case studies on individual components automobile companies were present, there was no attempt in India to study the working capital management in any specific industry.

DÄfnuleÅfiu [6] Study the relation between the efficiency of the working capital management and profitability using Pearson correlation analyses and take a sample size of 20 annual financial records of companies covering period 2004-2008. The conclusion of the study is that there is a negative linear correlation between working capital management indicators and profitability rates.

Dong and Su [8] examined the relationship between profitability, cash conversion cycle and its components for listed firms in Vietnam Stock market. The results showed that there was a strong negative relationship between profitability and the cash conversion cycle. The time period was short in compare with some of the previous studies about the relationship between Management of working capital and profits of the firm.

Bhunias and Khan [7] analyzed the efficiency of Indian steel company by the effective management of liquidity. Data has been taken from 230 steel companies from CMIE database, over the period of 2002 to 2010. It was concluded that liquidity and profitable position is good and satisfactory of the company.

Patel and Parjapati [9] analyzed five steel companies to know the comparative position and uses of working capital. Various analyses such as ratio analysis and operating cycle analysis have been used. The study reveals that Tata steel ltd has the highest growth of net working capital maintenance during GRA - Global Research Analysis holding period followed by Jindal steel ltd. and it is negative with JSW steel. Net operating cycle of Jindal steel and Tata steel is adverse in each year that shows there is a greater working capital management in these companies

Eljelly (2004) Identified the relation between profitability and liquidity who was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock firms in Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi firms. First, it was clear that there was negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

CHAPTER -3

RESEARCH DESIGN

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It constitutes the blueprint for the collection, measurement and analysis of data. The design adopted in the study is both descriptive and analytical done at branch level.

METHODOLOGY OF THE STUDY

Research methodology describes about the research objectives, design and methodology adopted to conduct the study. The data collected can be either primary or secondary. The above information is carried on with the cooperation of management of **BIOCON LTD.**

DATA COLLECTION:

Data collection is one of the most important aspects of research. The information through research methodology must be accurate and relevant. The data collection method can be classified into two methods.

OBJECTIVES OF STUDY

- To analyze the effective utilization of working capital
- To evaluate the performance of receivables and cash
- To study the structure of working capital
- To study the sources of working capital finance
- To study need of working capital requirement in organization

PRIMARY DATA

Primary data is collected from secondary source.

SECONDARY DATA

Secondary data means data that are already available i.e., they refer to data which has already been collected and analysed by someone else. The secondary data for the study was collected from book, company websites, magazines and other sources.

PERIOD OF STUDY

Period of study is 5 years 2015-2016, 2016-2017, 2017-2018, 2018-2019, and 2019-2020.

TOOLS USED FOR STUDY

The statistical used for this study are ratio analysis, bar diagram, comparative balance sheet, current trend.

STATISTICAL TOOL

The statistical tool used is trend analysis.

SCOPE OF THE STUDY

The study is conducted on BIOCON.LTD. The study of working capital management is purely based on secondary data and all the information is available within the company itself in the form of

records. To get proper understanding of this concept, I have done the study of the balance sheets, profit and loss A/C. So, scope of the study is limited up to the availability of official records and information provided by the finance department. The study is supposed to be related to the period of last three years.

The main scope of the study was to put into practical the theoretical aspect of the study into real lifework experience.

The study of working capital is based on tools like Ratio Analysis, Statement of changes in working capital. Further the study is based on last five years balance sheet.

1.7 LIMITATIONS OF THE STUDY

- The study is restricted for a period of five years only commencing from 2016-2020. So it shows limited period data is considered.
- As the financial information is confidential, they do not want to share accurate data or information.
- Study duration is very short.

CHAPTER – IV

ANALYSIS AND INTERPRETATION OF WORKING CAPITAL

CURRENT ASSETS VS CURRENT LIABILITIES

YEAR	CURRENT ASSETS	CURRENT LIABILITIES
2016	23023	8108
2017	23785	7052
2018	20577	8316
2019	25114	9933
2020	20837	7280

source: the balancesheet of biocon.ltd



CHART NO: 4.1 CURRENT ASSETS VS LIABILITIES

INTERPRETATION:

From the above table and chart inferred that, Current Assets are fluctuating , whereas Current Liabilities are decreasing from Rs.8626 to Rs.7280.

6CALCULATION OF WORKING CAPITAL

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	WORKING CAPITAL (in lakhs)
2016	23023	8108	14915
2017	23785	7052	16733
2018	20577	8316	12261
2019	25114	9933	15181
2020	20837	7280	13557

SOURCE:THE BALANCESHEET OF BIOCON.LTD

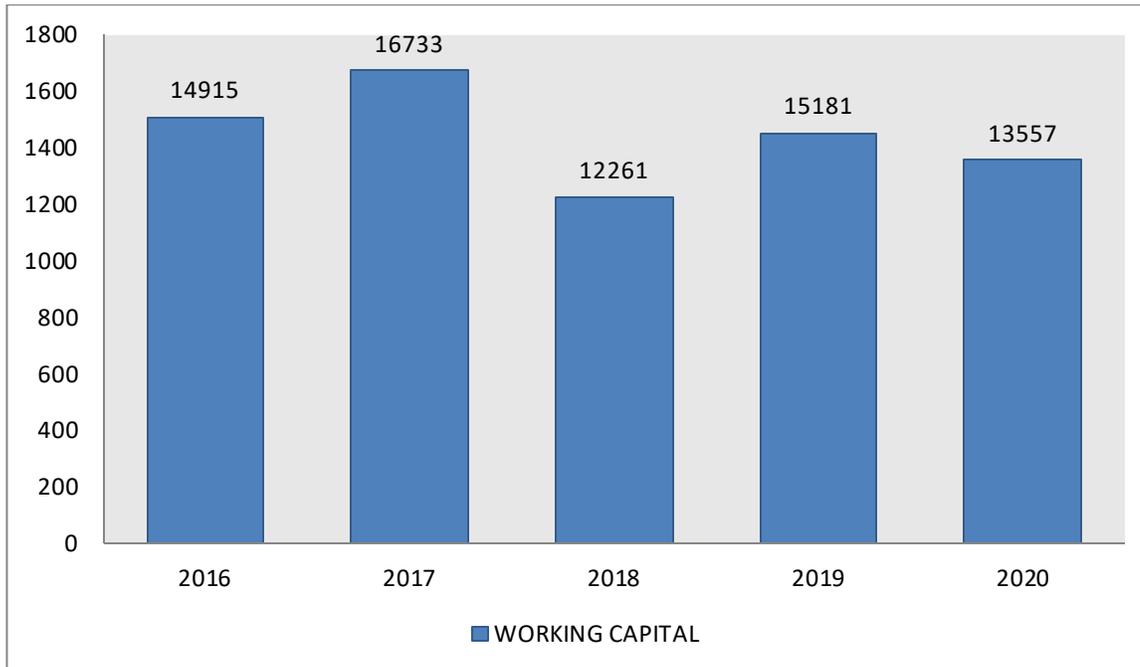


CHART NO: 4.2 WORKING CAPITAL

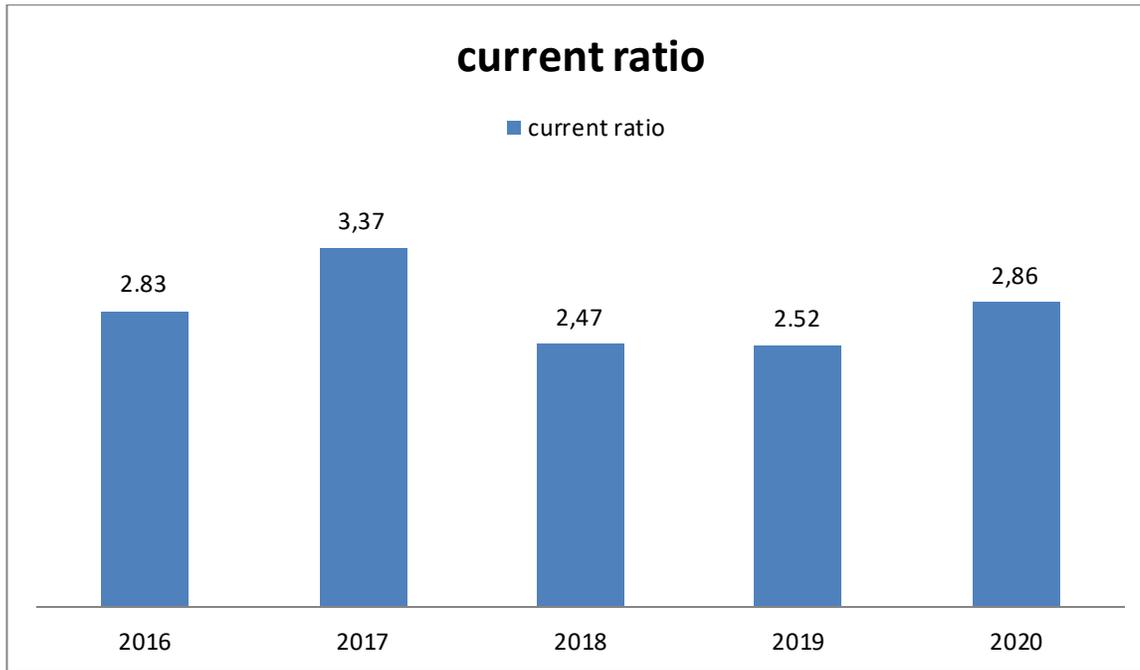
INTERPRETATION:

From the above table and chart its identified that, Working Capital is decreasing year by year but it has risen to Rs.16733 lakhs during the year 2017.

CURRENT RATIO

YEAR	CURRENT ASSETS (in million)	CURRENT LIABILITIES (in million)	CURRENT RATIO (times)
2016	23023	8108	2.83
2017	23785	7052	3.37
2018	20577	8316	2.47
2019	25114	9933	2.52
2020	20837	7280	2.86

Source: the balancesheet of biocon.ltd



CURRENT RATIO

INTERPRETATION

The chart shows that current ratio in 2016 is 2.83, in 2017 it is 3.37 and in 2018 it is 2.47 and in 2019 it is 2.52 and in 2020 it is 2.86. The current ratio of all the above five years is above the standard, so the company can meet its short term obligation. The company is able to generate enough from operations to pay for its current obligations with current assets.

QUICK RATIO

YEAR	Current assets (in million)	Inventory (in million)	current liabilities (in million)	Quick Ratio (times)
2016	23023	4675	8108	2.26
2017	23785	5396	7052	2.60
2018	20577	5617	8316	1.79
2019	25114	8019	9933	1.72
2020	20837	5347	7280	2.12

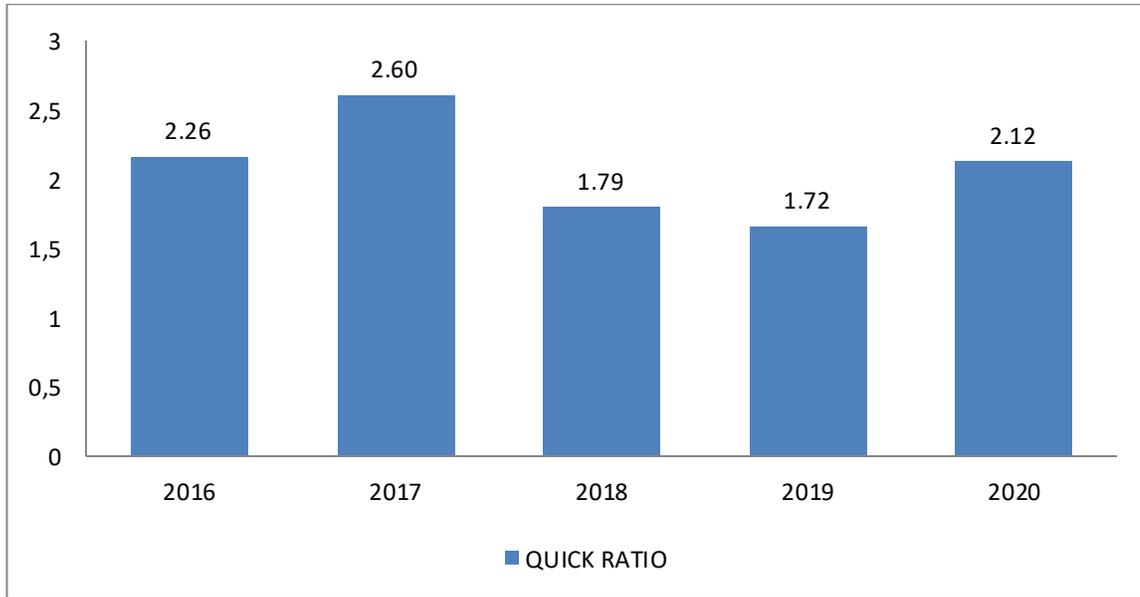


CHART NO: 4.4 QUICK RATIO

INTERPRETATION:

From the above table and chart it's identified that, Quick Ratio shows a fluctuation between 2016 to 2020.

GROSS PROFIT RATIO

Year	NET SALES (in millions)	GROSS PROFIT (in millions)	GROSS PROFIT RATIO
2016	23354	13116	56.16%
2017	26184	15062	57.52%
2018	24255	13680	56.40%
2019	28847	14808	51.33%
2020	19884	11293	56.79%

source: the balancesheet of biocon.ltd

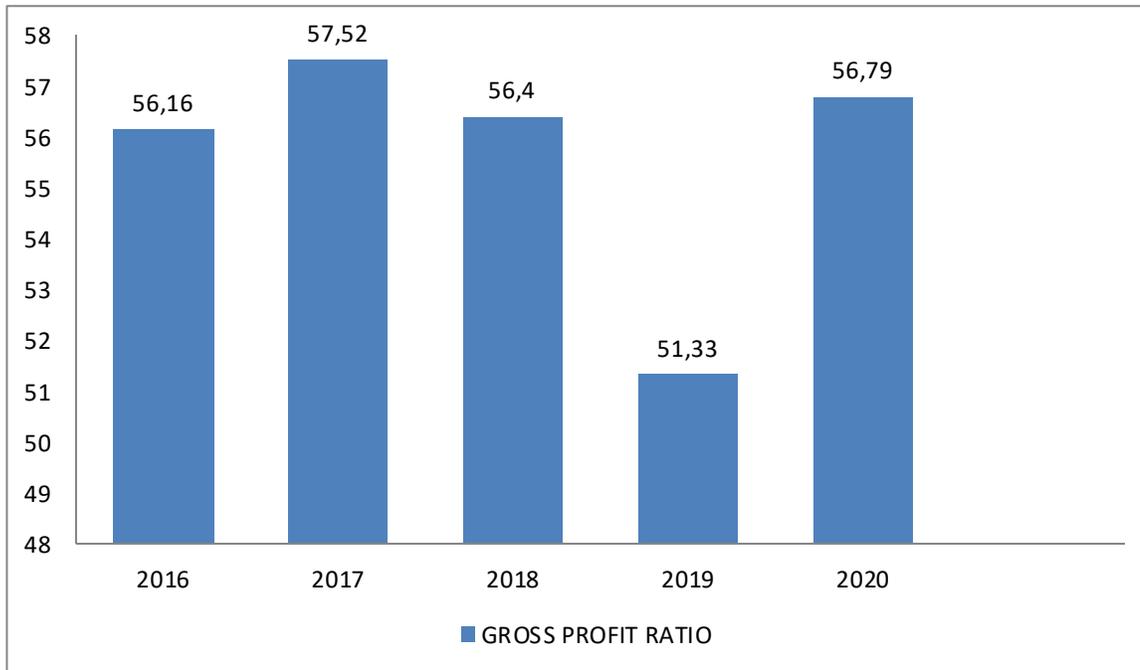


CHART NO: 4.9 GROSS PROFIT RATIO

INTERPRETATION:

From the above table and chart it's identified that, Gross profit Ratio shows a fluctuation between 56.16 and 56.76.

TABLENO: 4.14 NET PROFIT RATIO:

Year	NET SALES (in millions)	NET PROFIT (in millions)	NET RATIO PROFIT
2016	23354	3686	15.78%
2017	26184	5193	19.83%
2018	24255	2385	9.83%
2019	28847	4927	17.07%
2020	19884	4409	22.17%

Source: the balancesheet of biocon.ltd

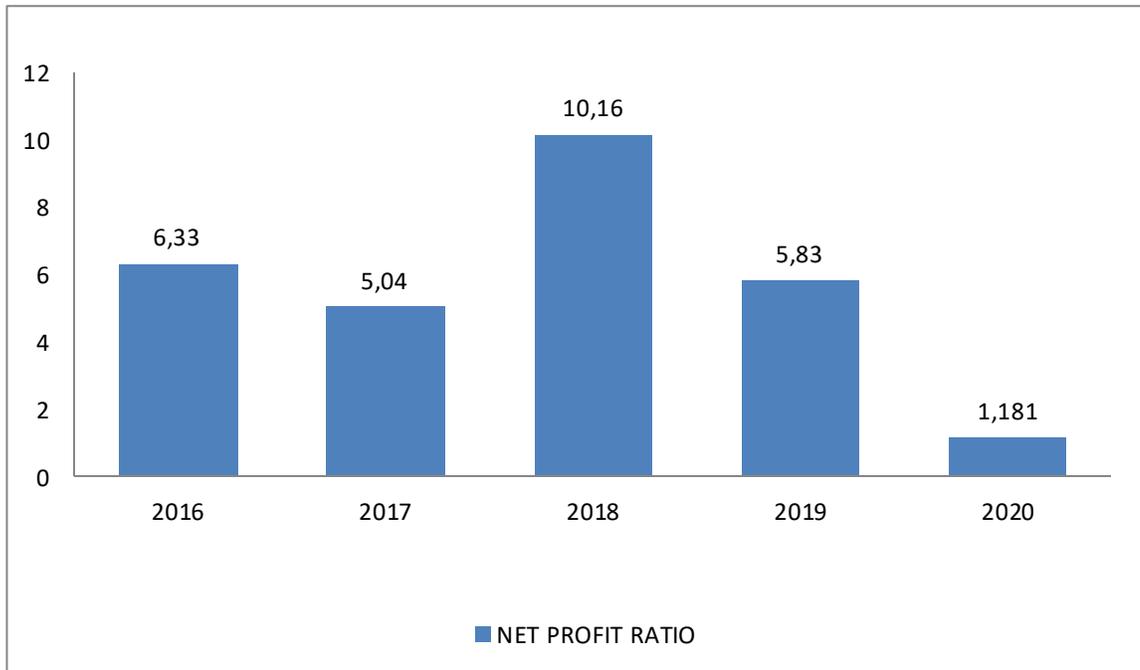


CHART NO:4.10 NET PROFIT RATIO

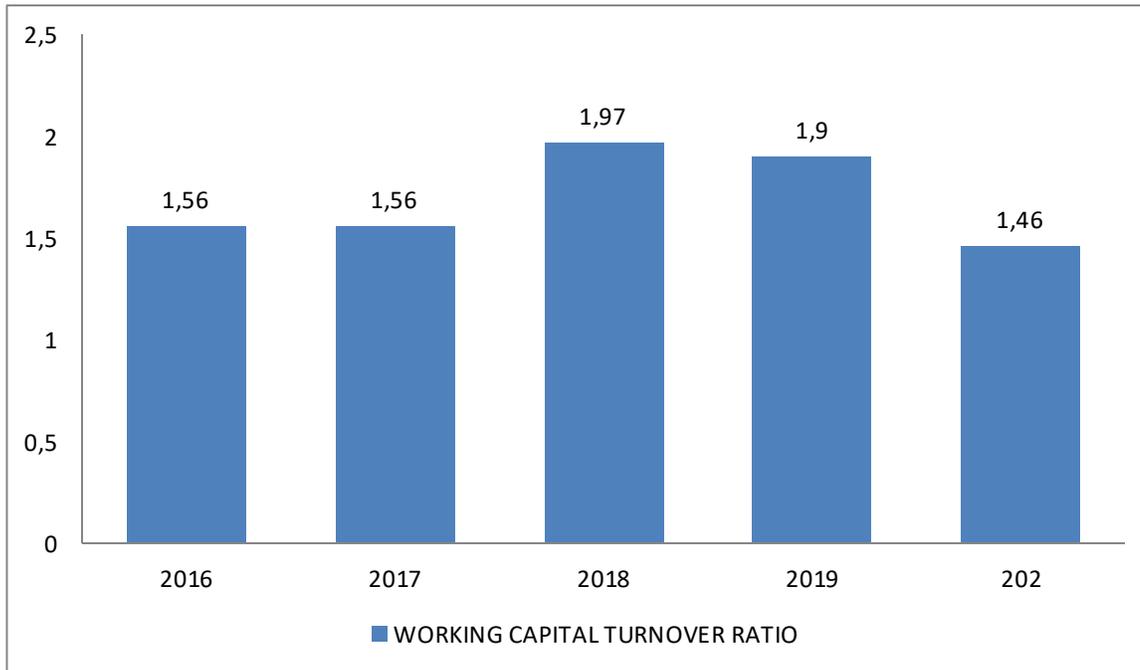
INTERPRETATION:

From the above table and chart it's identified that, Net profit Ratio shows a fluctuation, in 2018 it was increased and in 2020 it was reduced.

WORKING CAPITAL TURNOVER RATIO

YEAR	SALES (in millions)	WORKING CAPITAL (in million)	WORKING CAPITAL RATIO (times)
2016	23354	14915	1.56
2017	26184	16733	1.56
2018	24255	12261	1.97
2019	28847	15181	1.90
2020	19884	13557	1.46

Source: the balancesheet of biocon.ltd



WORKING CAPITAL TURNOVER RATIO

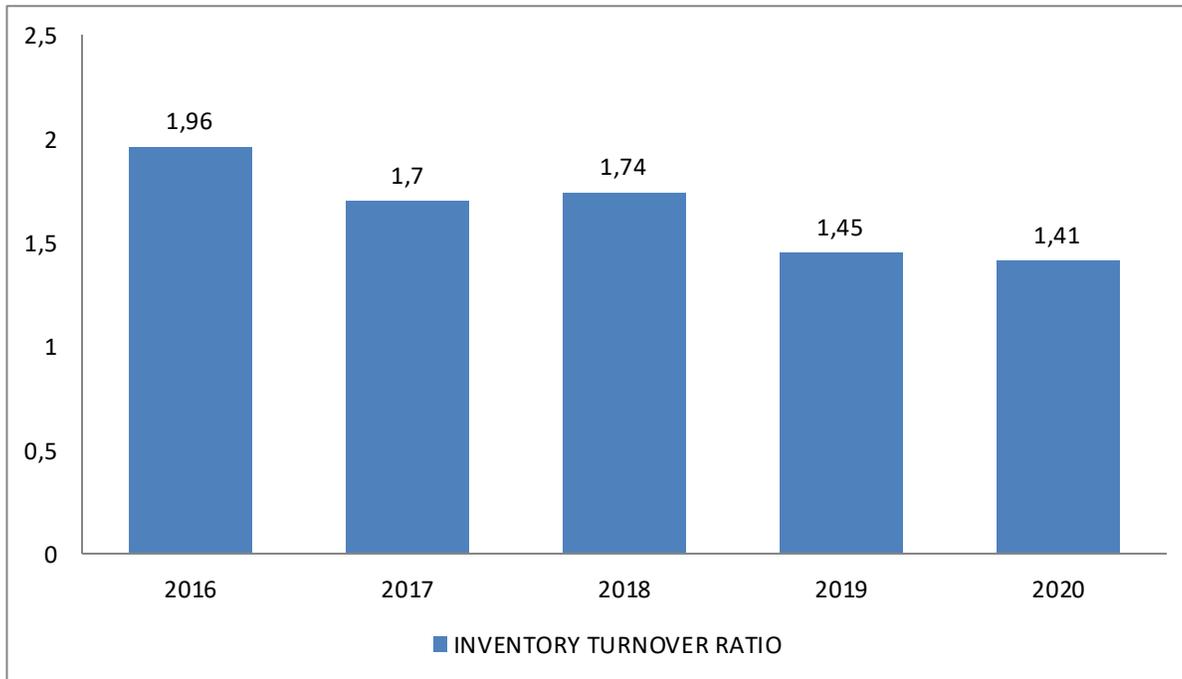
INTERPRETATION:

The chart shows that working capital turnover ratio in 2016 it is 1.56, in 2017 again it is to 1.56, and in 2018, again it is increase to 1.97 and in 2019 it is decreased 1.9 and in 2020 it is 1.46.

INVENTORY TURNOVER RATIO

YEAR	COST OF GOODS SOLD (in millions)	AVERAGE STOCK (in millions)	INVENTORY TURNOVER RATIO (Times)
2016	8582	4369	1.96
2017	8566	5035	1.70
2018	9587	5506	1.74
2019	9915	6818	1.45
2020	9478	6683	1.41

source: the balancesheet of biocon ltd



INVENTORY TURNOVER RATIO

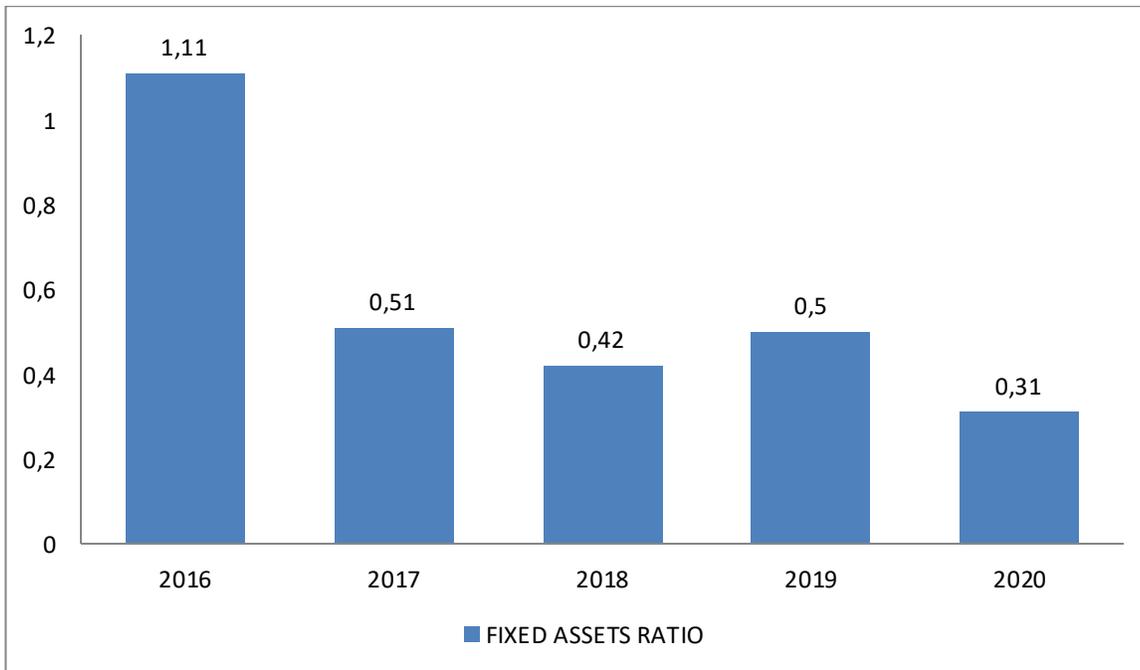
INTERPRETATION:

The chart shows that inventory turnover ratio in 2016 it is 1.96, in 2017 it is increase to 1.70 and in 2018 again it is increase to 1.74 and in 2019 it is again decreased 1.45 and 2020 it is again decreased 1.41cr.

FIXED ASSETS TURNOVER RATIO

Year	Net sales (in million)	fixed assets (in million)	Fixed assets turnover ratio(times)
2016	23354	20966	1.11
2017	26184	50904	0.51
2018	24255	56692	0.42
2019	28847	57290	0.50
2020	19884	62271	0.31

source:the balancesheet of biocon.ltd



FIXED ASSETS TURNOVER RATIO

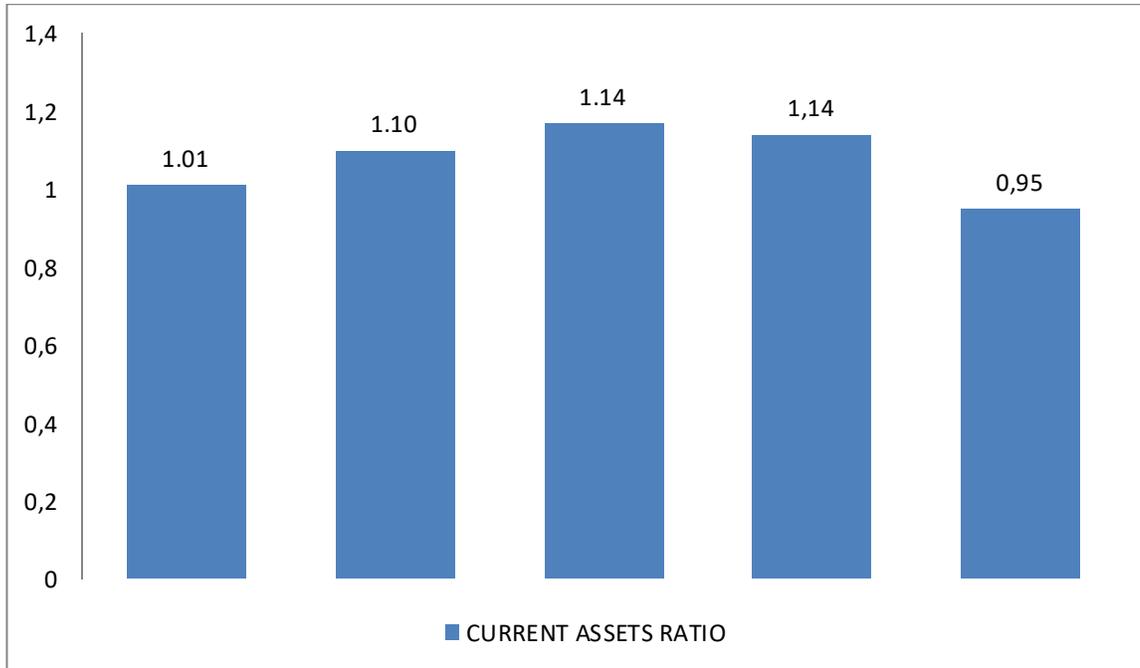
INTERPRETATION:

The chart shows that Fixed-asset turnover ratio in 2016 it is 1.62, in 2017 it is decrease to 1.50 and in 2018 again it is increase and reached to 1.75 and in 2019 it is decreased 1.11 and in 2020 it is again reached 1.62. A higher Fixed-asset turnover ratio is more favorable compared with a lower ratio.

CURRENT ASSETS TURNOVER RATIO

YEAR	SALES (in millions)	CURRENT ASSETS (in million)	CURRENT ASSETS TURNOVER RATIO(times)
2016	23354	23023	1.01
2017	26184	23785	1.10
2018	24255	20577	1.17
2019	28847	25114	1.14
2020	19884	20837	0.95

Source: the balancesheet of biocon.ltd



CURRENT TURNOVER RATIO

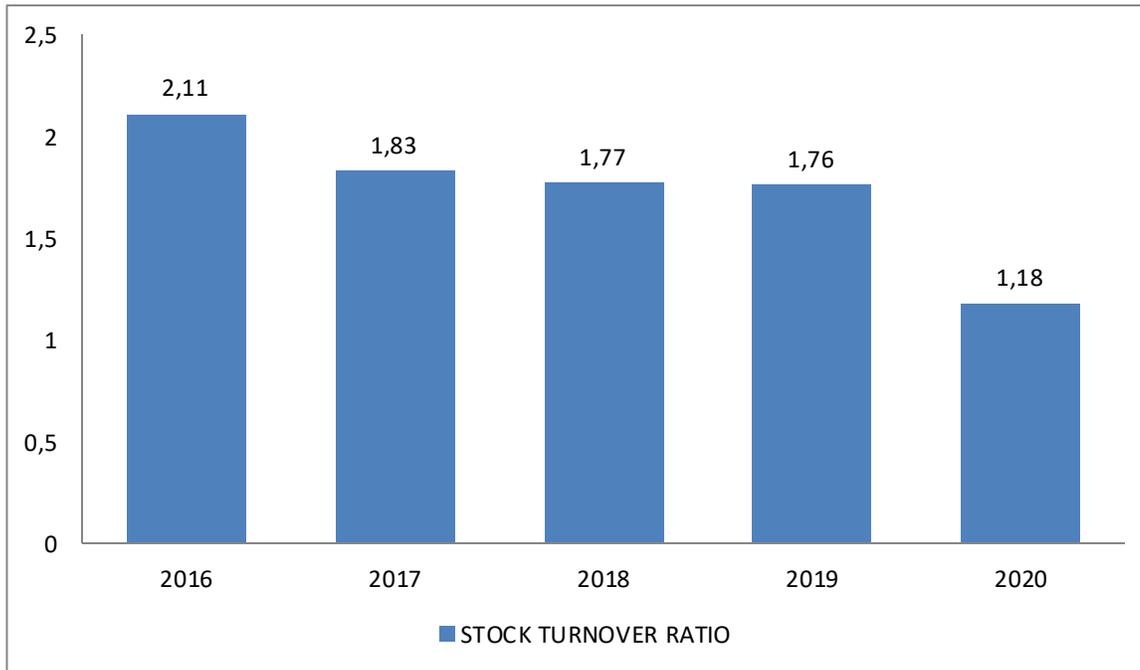
INTERPRETATION:

The chart shows that current asset turnover ratio in 2016 it is 1.01, in 2017 it is 1.10, and in 2018 it is increase to 1.14 and in 2019 it is 1.14 and in 2020 it is 0.95. Analysis of current assets turnover ratio reveals that it is increasing during 2018 and a decreasing in the 2020. A higher ratio is always more favorable. Higher turnover ratios mean the company is using its assets more efficiently. This chart shows that the company isn't using its assets efficiently.

STOCK TURNOVER RATIO

YEAR	COST OF GOODS SOLD (in millions)	CLOSING STOCK (in million)	STOCK TURNOVER RATIO(times)
2016	8582	4063	2.11
2017	8566	4675	1.83
2018	9587	5396	1.77
2019	9915	5617	1.76
2020	9478	8019	1.18

Source: the balancesheet of biocon.ltd



STOCK TURNOVER RATIO

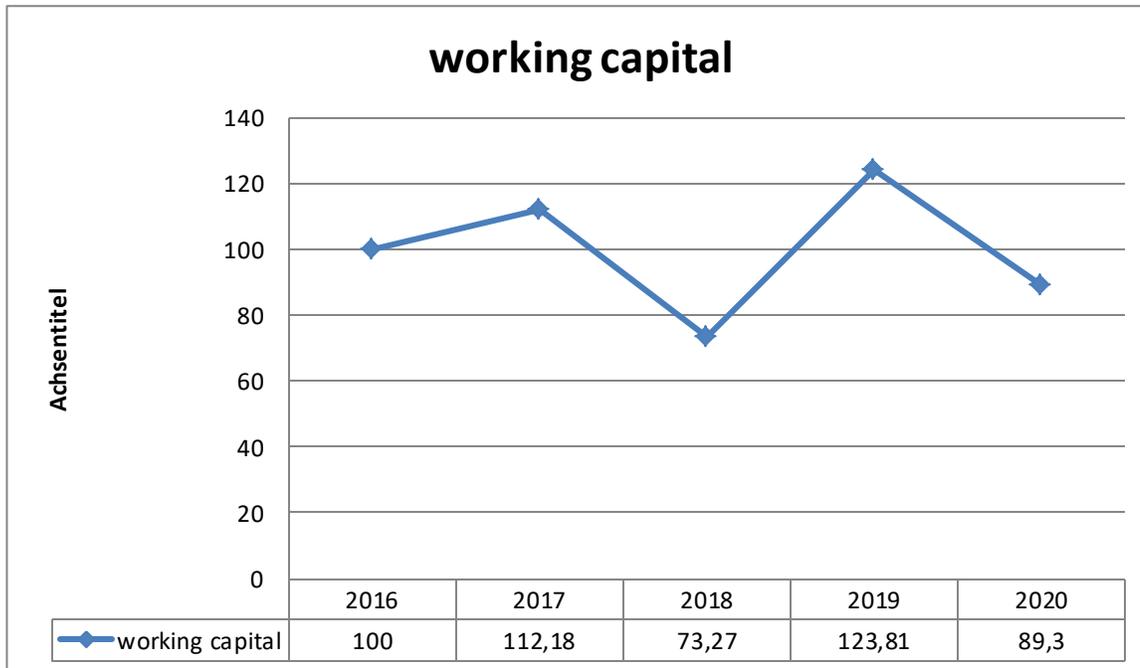
INTERPRETATION:

From the above table, we can observe the stock turnover ratio between 2016-2020. It fluctuating from 2.11 to 1.18.

TREND ANALYSIS FOR WORKING CAPITAL

YEAR	WORKING CAPITAL	TREND ANALYSIS
2016	14915	100
2017	16733	112.18
2018	12261	73.27
2019	15181	123.81
2020	13557	89.3

source: the balancesheet of biocon.ltd



IIINTERPRETATION:

From the above trend analysis showing, it is inferred as base year 2016, the trend analysis for working capital is lowest in year of 2020.

Chapter – V

Conclusion

The study conducted on working capital management on “**BIOCON Ltd.**” gives a view of assessing the performance of working capital management of the society by analyzing the financial data with the help of ratio analysis.

During the period of study, there were a few up and downs in the working capital and ratio analysis it will affect the operations of the society but it is observed that the overall financial position is good. The BIOCON Ltd. resources utilization has been very low. The society has to take necessary steps to utilize current asset for improve profitability. It is anticipated that the profitability will improve in the coming years.

Based on the analysis and interpretation I tried to give my findings and suggestions for the company as per my best knowledge.

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