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Review Article

Analysis of Working Capital with reference to Dr Reddy's Laboratory

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Introduction:

Working capital is a vital activity of the financial management. Managing working capital refers allocating assets in optimum manner to meet current and short term obligation of the business firm in efficient manner to realized their potential and minimize misappropriation working capital. In case of larger firm they need more focused attention in managing their working capital as, they can raise external funds as and when they require due to their high credit ratings which followed by their ease in raising funds via issue of bond. This requires importance of managing working capital to manage the varying available liquid funds as it affects the company's financial position.

Concept of Working Capital:

"The sum of the current asset is the working capital of a business"- J.S. Mill, this definition of Working capital reflects narrow view, as it includes only the items of current asset, like cash, accounts receivable, inventory, short term investments and marketable securities. In common understanding, all those items are considered as current assets which can be convertible to cash within a year or less. It is also referred as Gross Working Capital. In practice, this aspect of working capital is not used as it ignores the company's liquidity position.

"Current assets less current liabilities" – Stutely, this definition reflects the broader view of working capital and also termed as Net Working Capital. It is the excess of current asset over current liabilities. It completes the picture of company's short term solvency position as it includes current liabilities and represents short term financial health of the company and its ability to use current assets to pay the obligations created by the current liabilities. NWC can have two aspects, positive NWC and negative NWC (CA>CL), then it shows company's potential to invest and prosper. If the company has negative NWC (CL>CA) it reflect company's financial health in trouble and also inefficiency in making payments to the creditors.

Both the concept of WC has its own importance and they are relative in given situations. In common, Working Capital is that amount which is used to meet day to day expenses and other short term obligations of the company. A company needs optimum amount of working capital to function its operations efficiently. Working Capital management ensures balance of working capital in the company with not too much of working capital as unrequited fund may lose its opportunity cost nor too little working capital fail to meet its current obligations.

About Dr Reddy's Laboratory:

Scientist and innovator Dr. K Anji Reddy established Dr. Reddy's Laboratories with an objective to make medicine accessible to every individual. It is the first Indian Pharma company, with global presence. Dr Reddy has employed approx 20,000 employees working in the dimension to provide 'Good Health' to their customer. The company has approx 190 medications, 60 active pharmaceutical ingredients for drug manufacture, diagnostic kits, and critical care and biotechnology products.

Review of Literature:

Suresh and Choudhary (2020) studied SAIL working capital from the financial year 2015-16 to 2019-20. The study suggested that all the components of working capital are interrelated. Any increase in one component will tend to decrease the other component of the working capital. Study also founded that very high NWC ratio indicates over trading and very low NWC ratio indicates under trading.

Sharma and Kaur (2015) examine the relation between working capital management and profitability of Bharti Airtel Telecom Company over 7 years. The results revealed that there is negative correlation between liquidity and profitability of the company.

Mahato, J., & Jagannathan, U. K. (2016) focuses on the telecom industry of India covering eight selected telecom industry. The study was conducted for five years to investigate the impact of working capital on their profitability. Study reveals that working capital is vital, and it is necessary to maintain balance between wc. There is significant relationship between profitability and wc. The analysis shows that, ROA has negative relation with ACP, ICP, CCC and current ratio.

Arunkumar O.N. and T.Radharamanan (2012) studied working capital management on profitability of Indian manufacturing firms. The study period was for 5 years and methodology used on this study was correlation and regression analysis. The results of research shows that in correlation analysis profitability has negative relationship between profitability and debtor day, inventory day and creditor day. Regression analysis shows that there is positive relationship between number days of inventory and number of days of account payables.

Nimalathasan, B. (2010) studied the impact of WCM on profitability of on selected manufacturing firms using correlation and regression. Results suggested that cash conversion cycle and ROA are negatively correlated. Paper suggested that, managers can increase profitability of manufacturing firms by reducing he number of day's inventories and account receivable.

Research methodology:

The study is based on secondary data, collected from the published annual reports of Dr. Reddy's Laboratories and, journals, books, newspaper, other publications, various websites etc.

Period of study - The research study covers a period of five years i.e. from financial year 2016-17 to 2020-21.

Analysis of Data:

Year	2021	2020	2019	2018	2017
Current Ratio	2.40	2.42	2.90	1.91	2.02
Quick Ratio	1.78	1.89	2.25	1.52	1.59
Inventory Turnover Ratio	4.473	5.41	5.27	5.04	5.37
Debt-Equity ratio	0.07	0.07	0.07	0.22	0.20

Table 1.

Source: Annual Published report of Dr. Reddy's Lab

The Current Ratio indicates the ability of the organisation to meets it current payments. This ratio reflects Short-term solvency position of the organisation. Conventionally, a current ratio of 2:1 is considered satisfactory. Above table reveals that, company is having high CR except for the year, 2018. This represents company's sound short term solvency position as company is having larger portion of current assets relative to its current liabilities in making their payments.

Quick Ratio or Liquid ratio measures the company ability to use quick assets to meet the payment of its current liability. Normally QR of 1:1 is considered satisfactory. The above table reveals company's satisfactory quick ratio, as ratio is more than 1 which reflects company is in position to meet its current liabilities payments quickly as needed without selling any long term assets.

Stock or Inventory Turnover Ratio is an efficiency ratio measuring the management of inventory. Higher turnover ratio reflects company is efficiently generating revenue from its assets. Ratio ranging from 5 to 10 is considered satisfactory. Above table reveal that, from 2017 to 2020 company was efficiently managing its inventory. But in 2021 it was decrease in the ratio which depicts company's inefficiency in managing its inventory.

Debt-Equity ratio is the proportion of debt and equity in the capital structure of the company. A low debt-equity ratio indicates a lower amount of financing by debt and more equity in capital structure. The above table reveal that, company is having consistent debt equity ratio that too at lower rate. This implies that company is having equity base with less borrowed funds that signifies that, company has to pay lesser fixed charges and shareholders have a lot to earn.

Statement of Changes in W.C.				
Particulars	**2017**	**2016**	**Increase(+)**	**Decrease(-)**
Current Assets				
Inventories	18,097	16,996	1,101	
Investments	12,991	32,980		19,989
Trade Receivables	44,054	38,895	5,159	
Cash and Cash Equivalents	668	2,021		1,353
Short Term Loan and advances	1,057	2,889		1,832
Other C.A.	9,071	8,330	741	
Total Current Assets(a)	**85,938**	**1,02,111**		
Current Liabilities				
Short term Borrowings	18,699	20,896	2,197	
Trade Payables	7,787	7,192		595
Other Financial Liabilities	11,556	12,208	652	
Short term provisions	2,084	1,706		378
Other Current Liabilities	2,454	1,886		568
Total Current Liabilities(b)	**42,580**	**43,888**		
Net Working Capital a-b	43,358	58,223		
Decrease in W.C.	**14,865**		14,865	
	58,223	**58,223**	**24,715**	**24,715**

Table 2.

Source: Annual Published report of Dr. Reddy’s Lab

Statement of Changes in W.C.				
Particulars	**2018**	**2017**	**Increase(+)**	**Decrease(-)**
Current Assets				
Inventories	18,568	18,097	471	
Investments	16,828	12,991	3,837	
Trade Receivables	42,038	44,054		2,016
Cash and Cash Equivalents	1,207	668	539	
Short Term Loan and advances	526	1,057		531
Other C.A.	11,218	9,071	2,147	
Total Current Assets(a)	**90,385**	**85,938**		
Current Liabilities				
Short term Borrowings	21,008	18,699		2,309
Trade Payables	10,610	7,787		2,823
Other Financial Liabilities	11,471	11,556	85	
Short term provisions	1,734	2,084	350	

Other Current Liabilities	2,376	2,454	78	
Total Current Liabilities(b)	**47,199**	**42,580**		
Net Working Capital a-b	43,186	43,358		
Decrease in W.C.	**172**		172	
	43,358	**43,358**	**7,679**	**7,679**

Table 3.Source: Annual Published report of Dr. Reddy's Lab

The above two table 2 and 3 reveals that, there is high volatility in the current assets as compared to the previous year with quite stable current liability with. Although there is positive working capital for 2016,2017, 2018 year but as compared to the changes , wc shows the decreasing trend due to increase in current liability.

Statement of Changes in W.C.				
Particulars	**2019**	**2018**	**Increase(+)**	**Decrease(-)**
Current Assets				
Inventories	20,156	18,568	1,588	
Investments	21,144	16,828	4,316	
Trade Receivables	37,177	42,038		4,861
Cash and Cash Equivalents	1,132	1,207		75
Short Term Loan and advances	1,027	526	501	
Other C.A.	8,696	11,218		2,522
Total Current Assets(a)	**89,332**	**90,385**		
Current Liabilities				
Short term Borrowings	5,463	21,008	15,545	
Trade Payables	10,316	10,610	294	
Other Financial Liabilities	10,205	11,471	1,266	
Short term provisions	1,847	1,734		113
Other Current Liabilities	2,962	2,376		586
Total Current Liabilities(b)	**30,793**	**47,199**		
Net Working Capital a-b	58,539	43,186		
Increase in W.C.		**15,353**		15,353
	58,539	**58,539**	**23,510**	**23,510**

Table 4. Source: Annual Published report of Dr. Reddy's Lab

Statement of Changes in W.C.				
Particulars	**2020**	**2019**	**Increase(+)**	**Decrease(-)**
Current Assets				
Inventories	21,904	20,156	1,748	
Investments	21,184	21,144	40	
Trade Receivables	46,387	37,177	9,210	
Cash and Cash Equivalents	392	1,132		740

Short Term Loan and advances	2,671	1,027	1,644	
Other C.A.	8,529	8,696		167
Total Current Assets(a)	**101,067**	**89,332**		
Current Liabilities				
Short term Borrowings	10,436	5,463		4,973
Trade Payables	10,684	10,316		368
Other Financial Liabilities	15,452	10,205		5,247
Short term provisions	2,073	1,847		226
Other Current Liabilities	3,160	2,962		198
Total Current Liabilities(b)	**41,805**	**30,793**		
Net Working Capital a-b	59,262	58,539		
Increase in W.C.		**723**		723
	59,262	**59,262**	**12,642**	**12,642**

Table 5. Source: Annual Published report of Dr. Reddy's Lab

Table 4 and 5 reveals that, company manage to improve it working capital position as, there is substantial rise in current asset and with decrease in current liability. Hence it shows the increase in working capital which brings additional revenue to the company.

Statement of Changes in W.C.				
Particulars	**2021**	2020	**Increase(+)**	**Decrease(-)**
Current Assets				
Inventories	28,197	21,904	6,293	
Investments	15,972	21,184		5,212
Trade Receivables	40,800	46,387		5,587
Cash and Cash Equivalents	13,063	392	12,671	
Short Term Loan and advances	1,444	2,671		1,227
Other C.A.	9,996	8,529	1,467	
Total Current Assets(a)	**109,472**	**101,067**		
Current Liabilities				
Short term Borrowings	11,809	10,436		1,373
Trade Payables	13,364	10,684		2,680
Other Financial Liabilities	12,475	15,452	2,977	
Short term provisions	2,987	2,073		914
Other Current Liabilities	4,968	3,160		1,808
Total Current Liabilities(b)	**45,603**	**41,805**		
Net Working Capital a-b	63,869	59,262		
Increase in W.C.		**4,607**		4,607
	63,869	**63,869**	**23,408**	**23,408**

Table 6. Source: Annual Published report of Dr. Reddy's Lab

Table 6 depicts that as there is rise in current asset while current liability remains stagnant with the average of 34,377.5 which wider the gap between CA and CL resulting favourable WC and again it shows increase in working capital.

Conclusion:

Working capital is the amount of money a company has available to pay its short term expenses. Companies are persistent to improve their working capital position as shortage of working capital may hinder their liquidity position and company may fail to provide services to its stakeholders.

It is significant to have a appropriate working capital management in any company for smooth running of the their business operations. The prompt payment of current obligations secures the solvency position of the organisation.

The study clearly establishes the relation between various components of the working capital. Increase or decrease in one of the items of working capital may affect working capital accordingly. The company should follow sound working capital management and invest in more profitable resources which increases the profitability of the company. The pattern of working capital has a positive relation with the company's profit earning position.

In this study, overall position of WC of Dr. Reddy's Lab is satisfactory, but company need improvements in its short term borrowings, as from the beginning its shows averagely increasing trends which means, company need to maintain sufficient liquid position to meet obligation. Even though company has shows positive trend in Increase in WC over last few years then too, it is required to improve the WC position by early collection of receivables and slow down the payables to take benefits of time gaps to meet other obligations, as company has low cash holding positions. Hence, Dr. Reddy's Lab need to adjust working capital.

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