Optimizing Working Capital Efficiency in Biocon. Ltd - A Strategic Approach

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Abstract: ***This paper examines the importance of effective working capital management in the context of Biocon Ltd, a leading biopharmaceutical company. Working capital management plays a critical role in the financial health and operational efficiency of organizations, particularly in the dynamic and capital-intensive healthcare industry. The study begins by providing an overview of Biocon Ltd, its business model, and the challenges and opportunities inherent in the biopharmaceutical sector. It then delves into the concept of working capital and its components, including accounts receivable, inventory, and accounts payable. Next, the paper analyzes the significance of efficient working capital management for Biocon Ltd, highlighting the potential benefits such as improved liquidity, reduced financing costs, and enhanced profitability. It explores various strategies and techniques employed by Biocon Ltd to optimize its working capital, including inventory management, credit policies, and supplierrelationships.***

Keywords: working capital management, Biocon Ltd, financial health, inventory management, profitability

1. Introduction and Design of the Study

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 continueits 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.

Objective of the 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

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.

Statement of the Problem

The working capital management is very important term. It involves the study of day- to- day affairs of the company. The motive behind the study is to develop an understanding about the working capital management in the running business organization and to help the company in developing the efficient working capital management. Therefore, it helps in future planning and control decisions. If we look at any financial statement it will be evident that the investment in fixed assets remains more or less static but the working capital is constantly changing. A healthy working capital position is the thing that is absolutely necessary of a successful business.

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 shareaccurate data or information.
- Study duration is very short

2. Review of Literature

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.

Lazaridis and Tryfonidis (2006) have explored the relationship between corporate profitability and WCM in the Athens Stock Exchange. The finding of results shows a negative relationship between profitability and working capital indicators like days of accounts receivable, account payable and cash conversion cycle. They concluded that firms can create profits by effectively handling each component of the cash conversion cycle.

Mohamad and Saad (2010) Used Bloomberg's database of 172 listed companies randomly selected from Bursa Malaysia main board for five year period from 2003 to 2007. Applying correlations and multiple regression analysis, they found that current assets to total asset ratio shows positive significant relationship with Tobin Q, ROA and ROI. Cash conversion cycle, current asset to current liabilities ratio and current liabilities to total assets ratio illustrate negative significant relations with Tobin Q, ROA and ROIC.

Saswata Chatterjee (2010) Focused on the importance of the fixed and current assets in the successful running of any organization. It poses direct impacts on the profitability liquidity. There have been a phenomenon observed in the business that most of the companies increase the margin for the profits and losses because this act shrinks the size of working capital relative to sales.

But if the companies want to increase or improve its liquidity, then it has to increase its working capital. In the response of this policy the organization has to lower down its sales and hence the profitability will be affected due to this action. For this purpose 30 United Kingdom based companies were selected which were listed in the London Stock exchange.

3. Analysis and Interpretation

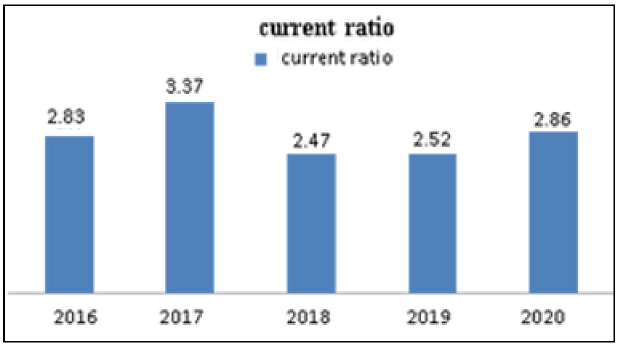
Ratio Analysis

Ratio analysis is one of the most powerful tool and widely used technique of analyzing financial statements. It is the process of computing and interpreting relationship between the items of the financial statements for arriving at conclusions about the financial position and performance of an enterprise. Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis.

With the help of ratios, the financial statements can be analyzed more clearly and scientific decisions are made from such analysis. Ratio analysis can also be defined as the yard stick that provides a measure of relationship between two accounting figures. Ratio analysis can be used both in the trend or dynamic analysis and statistical analysis. Financial ratio analysis is the calculation and comparison of ratios which are derived from the information in a company's financial condition, its operations and attractiveness as an investment. Financial ratios are calculated from one or more pieces of information from acompany financial statement.

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



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.

4. Findings

- The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.164cr during year 2016 - 2017.
- The end result of the statement of changes in working capital after comparing all the increases and decreases is the net decrease in the amount of working capital is 44.7cr during year 2017-2018.
- The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.227cr during year 2018-2019
- The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.97.40cr during year 2019-2020

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5. Suggestion

- The company should concentrate on the current ratio by utilizing current asset for productive purpose in order to achieve the standard ratio.
- The company should take necessary steps to make use of the quick asset for the development of the company and should balance with the standard ratio.
- Current assets turnover ratio is fluctuating. It‘s not good for company so in order to increase the current assets turnover ratio a company need to increase its sales.
- Gross profit ratio is not stable. So, in order to increase the gross profit the company wants to increase the production.

6. 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