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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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A STUDY ON WORKING CAPITAL MANAGEMENT THROUGH RATIO ANALYSIS WITH SPECIAL REFERENCE TO RAJASTHAN DRUGS & PHARMACEUTICALS LTD.

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ABSTRACT

Working capital is an important metric for all businesses, regardless of their size. Working Capital is a signal of a company's operating liquidity. Having enough Working Capital means that the company should be able to pay for all of its short-term expenses and liabilities. Large companies pay attention to Working Capital for the same reason as small ones do: Working Capital is a measure of liquidity, and thus is a measure of their future credit-worthiness. On the other hand, too much working capital means that some assets are not being invested for the long-term, so they are not being put to good use in helping the company grow as much as possible. Commercial paper (a market of large, short-term loans for big companies) will find it more expensive if they do not have enough Working Capital. If they are a public company, their stock price may fall if the market doesn't believe they have adequate Working Capital. So in this perspective present study is undertaken to study working capital management through ratio analysis at Rajasthan Drugs & Pharmaceuticals limited, Jaipur. From the present study it is found that company financial position was seeing to be sound because the company tries to increase its production and also net profit.

KEYWORDS
Working Capital Management, Ratio Analysis, RDPL.

INTRODUCTION
Working Capital is the life blood of every business concern. Business firm cannot make progress without adequate working capital. Inadequate working capital means shortage of inputs, whereas excess of it leads to extra cost. So the quantum of working capital in every business firm should be neither more nor less than what is actually required. The management has to see that funds invested as working capital in their organization earn return at least as much as they would have earned return if it invested anywhere else. At the time of increasing capital costs and scare funds, the area of working capital management assumes added importance as it deeply influences a firm's liquidity and profitability. A notable feature of utilization of funds is that they are of recurring nature. Therefore, efficient working capital management requires a proper balance between generation and utilization of these funds without which either shortage of funds will cause obstruction in the smoother functioning of the organization or excess funds will prevent the firm from conducting its business efficiently. So the main objective of working capital management is to arrange the needed funds on the right time from the right source and for the right period, so that a tradeoff between liquidity and profitability may be achieved. A firm may exist without making profits but cannot survive without liquidity. The function of working capital management organization is similar that of heart in a human body. Also it is an important function of financial management. The financial manager must determine the satisfactory level of working capital funds and also the optimum mix of current assets and current liabilities. He must ensure that the appropriate sources of funds are used to finance working capital and should also see that short term obligation of the business are met well in time.

REVIEW OF LITERATURE
Some of the important works that have been carried out in the area of working capital management are outlined below:
Shin and Soenen, (1998): highlighted that efficient Working Capital Management was very important for creating value for the shareholders. The way working capital was managed had a significant impact on both profitability and liquidity. The relationship between the length of Net Trading Cycle, corporate profitability and risk adjusted stock return was examined using correlation and regression analysis, by industry and capital intensity. They found a strong negative relationship between lengths of the firm's net-trading Cycle and its profitability. In addition, shorter net trade cycles were associated with higher risk adjusted stock returns. Rajeswara, Rao K. (1985), examined the working capital policies of Public Enterprises in India and found that working capital efficiency could not be achieved by majority of the selected companies. Shanmugam, R. and Poornima, S. (2001), showed that the effective management of working capital is still most crucial in organizations‟ success for 28 medium and large scale spinning mills in Coimbatore in the state of Tamil Nadu. Smith and Begemann (1997): emphasized that those who promoted working capital theory shared that profitability and liquidity comprised the salient goals of working capital management. The problem arose because the maximization of the firm's returns could seriously threaten its liquidity, and the pursuit of liquidity had a tendency to dilute returns.. Sarawat, B.P. and Agarwal, R.S. (2004), attempted to evaluate the working capital position of Nepal cement industry for a period of eight years from 1993-94 to 2000-01 by selecting two major players in the public sector. Dutta, Sukamal (1995), evaluated the working capital crisis and working capital management requirements of selected paper mills of West Bengal during the period 1983-84 to 1985-86. The study concluded that the overall financial conditions of 40% of the firms were assumed to be precarious. Garcia-Teruel, Pedro Juan and Martinez- Solana, Pedro (2007), provided empirical evidence on the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms during the period 1996 to 2002. Abel, Maxime (2008), examined the impact of working capital management on cash holdings of Small and medium-sized Manufacturing Enterprises (SMEs) in Sweden. Although, lot of studies has been carried out in the area of working capital management, few studies have been carried out in the pharmaceutical industry. This article evaluated the association between traditional and alternative working capital measures and return on investment (ROI), specifically in industrial firms listed on the Johannesburg Stock Exchange (JSE). The problem under investigation was to establish whether the more recently developed alternative working capital concepts showed improved association with return on investment to that of traditional working capital ratios or not. Hence, the present study is an attempt to contribute to the existing literature.

NEED OF THE STUDY
Today financial soundness and profitability of business enterprises largely depend upon the working capital management by the firm. The importance of adequacy of working capital can hardly be over emphasized. Many other business failure takes place due to lack of working capital. Hence Working Capital is considered as the lifeblood and the controlling nerve centre of a business. Inadequate working capital is a business ailment. Therefore, a firm has to maintain adequate working capital. It is as important as blood circulation in our body to maintain life and flow of funds is very necessary to maintain business. Inadequate working capital affects the firm's solvency adversely and excessive working capital affects the firm's profitability adversely. Inadequate working capital implies shortage of regular funds to carry on the normal business operation, if there is excess of working capital, fund become idle it also affects the financial soundness of the firm. In this perspective there is need to manage the working capital effectively in any business. The question which strike the mind during reviewing various literatures that how Rajasthan Drugs & Pharmaceuticals Ltd managing its working capital being public sector undertaking. Hence study is undertaken to answer the above mentioned question.

OBJECTIVES OF THE STUDY

1. To review the concept and importance of working capital and the concept of ratio, utility of ratio analysis, compiling of ratios.
2. To determine the amount of the working capital employed by Rajasthan Drugs & Pharmaceuticals Limited.
3. To analyze the working capital management financial performance of the Rajasthan Drugs & Pharmaceuticals Limited
4. To discuss summary of findings in form of conclusions and suggestions for effective functioning of Rajasthan Drugs & Pharmaceuticals Limited.

SCOPE OF THE STUDY

The present study is restricted to Rajasthan Drugs & Pharmaceuticals Limited at Jaipur, Rajasthan.

DATA COLLECTION

To achieve the aforesaid objectives data is gathered from secondary sources, like annual reports, journals, and related other research papers

DATA ANALYSIS

The data collected is analyzed through ratio analysis and important tables are used for data discussion as per needed. The ratios and various tables prepared are used for data analysis.

TABLE 1: TABLE SHOWING COMPONENTS OF CURRENT ASSETS OF RDPL (Rs. in lacs)

Years	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Inventories	853.16	722.51	737.14	1133.41	894.42
Sundry Debtors	2638.96	3964.64	4034.98	4830.98	4891.26
Cash & Bank balance	124.00	210.45	90.55	108.83	148.06
Loans & Advances	316.61	344.37	505.13	632.88	59.93
Other current assets	----	----	----	17.43	17.01
Total Current Assets	3932.73	5241.97	5367.80	6723.53	6010.68

Sources: Annual reports

Interpretation

The above table depicts the current assets of the company from 2007-08 to 2011-12, during 2007-08 total currents assets was Rs. 3932.73 crores , in the year 2008-09 Rs. 5241.97 crores, in the year 2009-2010 Rs. 5367.80 crores, in the year 2010-2011 Rs 6723.53 crores, and in the year 2011-2012 Rs. 6010.68 crores, From the above table it can observe that there is a tremendous increase in the value of current assets from year 2007 -08 to 2010 -11, which indicates extensive growth of the organization. But during 2011- 2012 total current assets decline due to the amount of loans & advances was low and the debtors balance reduced; the company should focus on increasing these.

TABLE 2: TABLE SHOWING CURRENT RATIO OF RDPL (Rs. in lacs)

Particulars	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Current Assets	3932.73	5241.97	5367.80	6723.53	6010.68
Current Liabilities	1674.34	2675.68	3389.10	4024.61	5668.35
Current Ratio	2.35	1.96	1.58	1.67	1.06

Sources: Annual reports

Interpretation

The standard current ratio is 2:1. The current ratio for five years from 2007- 2008 to 2011- 2012 are calculated and presented in the above table. From the above table it is analyzed that the current ratio position in the company is not good from the year 2008-2009 i.e., the company has not properly managed its working capital requirements; it does not shows the good financial position of the company. After that it is consistently decrease i.e. 1.96 to 1.58 in 2008-09 & 2009-10. It is increase slightly in 2010-11 but again decreased in 2011-12. From the above table it is clear that the company has relatively low current ratio which is the indication that the company assets are not highly liquid and it's hard for the company to meet its liabilities in time as when they are due.

TABLE 3: TABLE SHOWING LIQUID RATIO OF RDPL (Rs. In lacs)

Particulars	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Liquid Assets	3076.42	4515.31	4626.30	5568.78	5094.94
Liquid Liabilities	1674.34	2675.68	3389.10	4024.61	5668.35
Liquid Ratio	1.84	1.69	1.37	1.38	0.90

Sources: Annual reports

Interpretation

The standard quick ratio is 1:1. From the above table it is clear that the quick ratio has consistently decreased from the year 2007-2008 to 2011-2012, i.e., 1.84 to 0.90, which shows company has maintained its stability over the year 2007-08 to 2010-11and a slip in the year 2011-12 due to the decrease in the liquid assets. From the above table it clear that the company has high liquid ratio compared to the current liabilities, which shows the company's business is said to be in a liquid condition till 2010-11. But it is slightly decreased in the year 2011-12, which shows company is not in liquid form & exposed to risk in that particular year.

TABLE 4: TABLE SHOWING WORKING CAPITAL TURNOVER RATIO OF RDPL (Rs. In lacs)

Particulars	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Sales	8821.08	7801.86	8367.69	7870.02	7991.80
Net Working Capital	2258.39	2566.29	1978.70	2681.49	325.32
Working Capital Turnover ratio	3.91	3.04	4.23	2.93	24.56

Sources: Annual reports

Interpretation

The above depicts the working capital turnover ratio. From the above table it is analyzed that the working capital turnover ratio of the company is 3.91 in the year 2007-2008, and a slight decrease in the year 2008-2009. In the year 2009-2010 the company has concentrated and improved its working capital ratio to 4.23 and again there is a slight decrease in the year 2010-11. In 2011-12 year, there is an increase in the ratio. From the above table it can infer that there is an efficient management of working capital in the company.

TABLE 5: TABLE SHOWING CURRENT LIABILITIES TO NET WORTH RATIO (Rs. In lacs)

Particulars	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Net Working Capital	2258.39	2566.29	1978.70	2681.49	325.32
Current Liabilities	1674.34	2675.68	3389.10	4024.61	5668.35
Current Liabilities to Networth Ratio	1.34	0.95	0.58	0.66	0.05

Interpretation

Desirable level for this Ratio is 1/3. The ratios calculated above are very high compared to the desirable ratio. The above table depicts the CL to Net worth ratio of the company is consistently decreasing from 1.34 to 0.58, i.e. for the year 2007-08 to 2009-10, then slight increase in 2010-11 and again decrease in 2011-12. It means it is easy to obtain long-term funds from any financial institutions.

TABLE 6: TABLE SHOWING DEBTORS TURNOVER RATIO (Rs. In lacs)

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Net credit annual sales	8821.08	7801.86	8367.69	7870.02	7991.80
Average Sundry debtors	2638.96	3301.80	3999.81	4432.98	4861.12
Debtors turnover Ratio	3.34	2.36	2.09	1.77	1.64

Sources: Annual reports

Interpretation

The above table depicts the company's debt turnover ratio, it is in decreasing trend from 2007- 2008 to 2011-2012 there is high decrease due to increase in debtors , i.e., the company's credit sales is increased as well as receivables, which can be further become a bad debts to the company.

TABLE 7: TABLE SHOWING AVERAGE COLLECTION PERIOD (Rs. In lacs)

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Average No of working days	365	365	365	365	365
Debtors turnover ratio	3.34	2.36	2.09	1.77	1.64
Average collection period	109.28	154.66	174.64	206.21	222.56

Note: Average Number of working days is assumed to be 365 days

Sources: Annual reports

Interpretation

From the above analysis, the average collection period of debtors has an increasing trend from 110 days in 2007-2008 and then increased to 155 days in 2008-2009 and further increased to 175 days in 2009-2010, and in 2010-2011& 2011-2012 it has further increased to 207 days & 223 days of the collection period of debtors. From the above table it can be inferred that the company is losing its creditability in the market as there is short fall in the working capital.

TABLE 8: TABLE SHOWING EVALUATION OF INVENTORY MANAGEMENT (Rs. In lacs)

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Inventories	853.16	722.51	737.14	1133.41	894.42
Net working capital	2258.39	2566.29	1978.70	2681.49	325.32
Inventor management Ratio	0.37	0.28	0.37	0.42	2.74

Sources: Annual reports

Interpretation

From the above analysis, the company inventory are up and down from the year 2007-2008 to 2011-2012 i.e. in 2007-08 it is 0.37, in 2008-09 it is further decreased to 0.28, then in 2009-2010 it has increased to 0.37 and in the year 2010 - 11 is 0.42, and then in 2012 it has increased to 2.74, Hence from 2008-2010 the company is trying to maintain stable inventory level & get succeed in 2009-2010, and in the year 2012 it increased to 2.74.

TABLE 9: TABLE SHOWING INVENTORIES TO CURRENT ASSETS RATIO (Rs. In lacs)

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Inventories	853.16	722.51	737.14	1133.41	894.42
Current assets	3932.73	5241.97	5367.80	6706.10	5993.67
Inventory to Current Assets Ratio	0.21	0.13	0.13	0.16	0.14

Sources: Annual reports

Interpretation

From the above analysis, the inventories to current asset are decreasing in the year 2007-2008 & 2008-2009 from 0.21 to 0.13. And for the next two years 2008-2009 & 2009-2010 it is maintained stable inventory to current assets i.e. 0.13, and then in the year 2010-11 it is increased to 0.16, again it is decreased to 0.14 in 2012. From the above table it can be inferred that inventory to current assets of the company was fluctuating, and also stable inventory level of 0.13%, which is led to the decrease in the working capital which again has reduced the current assets of the company.

TABLE 10: TABLE SHOWING INVENTORIES TO TURNOVER RATIO (Rs. In lacs)

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Sales	8821.08	7801.86	8367.69	7870.02	7991.80
Inventories	853.16	722.51	737.14	1133.41	894.42
Inventories on turnover ratio	10.33	10.79	11.35	6.94	8.93

Sources: Annual reports

Interpretation

From the above table it is analyzed that the inventory are increasing in the year 2007-2008, i.e., 853.16 and it decreases in the year 2008-2009, i.e., 722.51 and then the ratio is also increasing in the year 2008-2009, i.e., 10.79, then the ratio is increased to 11.35 in year 2009-2010, then it is decreased to 6.94 in the year 2011, and then in the year 2012 it has increased to 8.93 while comparing the previous year.

TABLE 11: TABLE SHOWING EVALUATION OF RECEIVABLES MANAGEMENT (Rs. In lacs)

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Receivable	2638.96	3964.64	4034.98	4830.98	4891.26
Net Working Capital	2258.39	2566.29	1978.70	2681.49	325.32
Receivable on net Working Capital	1.16	1.54	2.03	1.80	15.03

Sources: Annual reports

Interpretation

From the above analysis the receivable to Net Working Capital ratio of the company is 1.16 in the year 2007-2008, then in the year 2009 & 2010, it is further increase to 1.54 & 2.03, then in the year 2011 it has further decreased to 1.80, but later it is increased to 15.03 in the year 2011-2012. The above table indicates that the receivables on net working capital of the company are fluctuating.

TABLE 12: TABLE SHOWING ON CASH TURNOVER RATIO (Rs. In lacs)

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Sales	8821.08	7801.86	8367.69	7870.02	7991.80
Cash & bank balance	124.00	210.45	90.55	98.45	148.06
Cash turnover Ratio	71.13	37.07	92.40	79.93	53.97

Sources: Annual reports

Interpretation

From the above table it is found that the company's cash turnover ratio is decreased in the year 2008 & 2009 from 71.13 to 37.07, and then in the year 2009-2010, it is increased to 92.40, then in the year 2010-2011 it is decreased to 79.93, and during 2011-12 year cash ratio is again decreased to 53.97. The Cash Turnover ratio of the company from past four years, i.e., 2009- 2010 to 2011- 2012, was going down, as there is an increase in the amount of sales of the company and the receivables is also increased and the net working capital is decreased due to which the cash inflow of the company has reduced.

FINDINGS OF THE STUDY

Some of the important findings of the study are as follows:

1. Quick ratio is also higher than the standard of 1:1 except 2011-12, which shows that the company has almost in good liquid position.
2. Current ratio trend shows that the ratio is consistently decreasing as against the standards of 2:1. Based on this data, the company assets are not highly liquid and it's hard for the company to meet its liabilities in time as when they are due.
3. Creditors Turnover ratio and average payment period shows that the company is prompt in its payments as and when due.
4. The increment in working capital turnover ratio indicates that low investment in working capital relation to sales is required for the company.
5. Increasing trend in total assets turnover ratio shows the off sales generated by the total assets. The trend shows that the assets of the company are efficiently utilized to generate sales.
6. The Cash Turnover ratios of the company go down in 2009 then it increases in 2010. In 2012, it goes down again as compared to previous year 2011. But the company has to take some important measures to stabilize its resources.

SUGGESTIONS

1. The company depends on one customer Government of Rajasthan & Ministry of Health & Affairs, Government of India; in future it is advisable to look for other customers.
2. The management should take effective measures to recover the outstanding of the company.
3. The cash balance of the company is required to be improved in order to have immediate liquidity position. But at the same time, precaution should be taken to see that too many funds are not locked up in cash balance, which ultimately may lead to improper utilization of funds.
4. The company depends largely in borrowing to finance its fixed assets. In future, the company should use its own earnings to reduce the burden of interest or dividend payments.
5. The effective and efficient cash inflow provides an opportunity to co-ordinate with cash outflow. Proper coordinated cash inflow and outflow management will maintain sound and better working capital management, the improvement in credit collection and selling will boost their sales and will record them in cash inflow management.

CONCLUSION

For over three decades, the Rajasthan Drugs & Pharmaceuticals limited has been a prime mover and catalyst behind key pharmaceutical sector reforms in the state - measures that have spiraled steady growth witnessed in both industrial and economic areas. RDPL is a profit making 'Mini Ratna' enterprise amongst the Pharmaceutical Public Sector Undertaking in the country. Right from the year of inception, in 1981, RDPL set its sights on "supply life saving and other essential drugs" meeting growing industry needs and saving the peoples life's. From the study it was also concluded that though the company's earnings was increasing every year, the company's funds are not properly utilized. Therefore RDPL should try to improve its financial positions in the coming years.

At last it can be conclude that company financial position was seeing to be sound because the company tries to increase its production and also net profit.

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