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FINANCIAL HEALTH MESSUREMENT THROUGH CURRENT ASSETS OF AXA PARENTERALS LTD.

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ABSTRACT

This study examines the working capital management of AXA Parenterals Ltd., a pharmaceutical firm located in Gujarat. Efficient working capital management is vital for sustaining liquidity, supporting daily operations, and enhancing overall profitability. The analysis utilizes key financial ratios and trends over recent years, focusing on crucial components such as inventory, accounts receivable, and current liabilities. The results indicate that the company maintains a reasonably stable liquidity position. However, there is significant potential to improve inventory turnover and accelerate receivables collection. The study concludes with actionable recommendations aimed at boosting operational efficiency and optimizing the working capital cycle for better financial performance.

Keywords: Working Capital Management, AXA Parenterals Ltd, Liquidity, Current Assets

INTRODUCTION

Axa Parenterals Ltd. is a prominent Indian pharmaceutical manufacturer specializing in sterile parenteral preparations, including life-saving medicines and hospital products. With state-of-the-art facilities in Roorkee, Uttarakhand, the company operates under WHO-GMP and PIC/S certifications, ensuring compliance with global quality standards. Axa's product portfolio encompasses intravenous fluids, respiratory solutions, ophthalmic preparations, and critical care injectables, catering to both domestic and international markets. Through its subsidiary, Helias Life Sciences, Axa extends its reach into lyophilized injectables and oncology products. The company's commitment to innovation and quality positions it as a trusted partner in the global healthcare supply chain.

The pharmaceutical industry plays a vital role in safeguarding public health and supporting the healthcare system. AXA Parenterals Ltd. contributes by producing essential injectable medicines and IV fluids. The company’s operations promote employment, innovation, and economic growth in Gujarat. During the COVID-19 pandemic, it ensured uninterrupted supply of critical healthcare products. Thus, its financial health directly impacts its ability to serve societal needs efficiently. Working capital management plays a crucial role in the financial health and operational efficiency of any business, especially in industries like pharmaceuticals that require significant investment in raw materials, production processes, and quality control. It involves managing a company’s short-term assets and liabilities to ensure adequate liquidity for day-to-day operations without compromising profitability.

LITERATURE REVIEW

Knauer and Wöhrmann (2013) explored the link between working capital management and firm profitability. Their findings suggested that efficient WCM significantly boosts profitability,

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especially in firms that closely monitor receivables and inventory turnover. The study emphasized WCM as a key operational control tool. It underlined its strategic importance in maintaining liquidity.

Bhalla (2014) provided a comprehensive overview of working capital management principles and practices. He highlighted the need for balancing liquidity and profitability through careful management of current assets and liabilities. His book remains a foundational resource for finance professionals. It underscores theoretical and practical approaches to WCM.

Aktas et al. (2015) investigated whether WCM adds value to firms by examining performance and investment patterns. They found that optimized WCM enhances firm value and encourages better investment decisions. The research provided evidence of a strong link between WCM efficiency and shareholder wealth maximization. It stressed proactive WCM as a value driver.

Prasad et al. (2019) reviewed extensive literature on WCM and outlined a future research agenda. They identified gaps in empirical and cross-industry studies, advocating for dynamic, sector-specific analyses. Their review highlighted the evolving role of WCM in modern financial strategies. It serves as a key reference for ongoing scholarly inquiry.

Lyngstadaas and Berg (2016) studied Norwegian firms and confirmed that shorter cash conversion cycles improve profitability. Their study emphasized the significance of context and firm size in WCM effectiveness. The findings support tailoring WCM practices to national and industry-specific conditions. Efficiency in asset cycles was seen as critical to returns.

Boisjoly et al. (2020) examined the financial and valuation impact of WCM. They found that poor WCM can reduce firm value and affect investor perceptions negatively. Their study underlines the valuation risks associated with inefficiencies in working capital. It positions WCM as a critical factor in market-based performance metrics.

Palombini and Nakamura (2012) analyzed key factors influencing WCM in Brazil. They highlighted economic instability, firm size, and access to credit as major determinants. The study provided localized insights into WCM in emerging markets. It calls for adapting strategies to market dynamics and operational constraints.

Gul et al. (2013) assessed WCM in the SME sector, finding a strong link between aggressive WCM strategies and enhanced performance. SMEs that managed inventories and receivables proactively achieved better results. Their research supports targeted WCM frameworks for smaller firms. It stresses tailored financial controls for SME growth.

Talonpoika et al. (2016) proposed defined strategies for financial WCM based on empirical analysis. They demonstrated that firms with clear WCM strategies outperformed those without formal plans. The study promotes strategic planning in liquidity and operations management. It advocates for structured decision-making processes in finance.

Dong and Su (2010) studied Vietnamese firms and confirmed that efficient WCM positively affects profitability. Shorter receivables and inventory periods improved performance metrics across industries. The study highlights the importance of WCM in transitional economies. It emphasizes agile financial operations in emerging markets.

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Charitou et al. (2016) provided empirical evidence from an emerging market, showing that WCM significantly affects firm profitability. Their research focused on cash conversion cycle optimization as a key driver of returns. The study contributes to WCM literature in underexplored economic regions. It supports investment in operational efficiency.

Thuringian and Afrifa (2013) analysed the individual components of WCM and their relative impact on SME profitability. They found that accounts receivable and inventory management were most critical. Their work encourages granular WCM analysis rather than broad strategies. It reinforces component-level focus for improved SME outcomes.

While several studies have explored working capital management and its impact on profitability, there is limited research focused on mid-sized pharmaceutical companies in India, especially those operating in regions like Gujarat. Most existing literature emphasizes large corporations, leaving a gap in understanding how firms like AXA Parenterals Ltd. manage working capital in a regulated and capital-intensive environment. Additionally, recent challenges such as post-pandemic disruptions and the integration of technology in WCM remain underexplored at the company-specific level.

The study is needed to understand how effectively AXA Parenterals Ltd. manages its working capital to ensure smooth operations, maintain liquidity, and enhance profitability. In the pharmaceutical sector, where production cycles are long and inventory requirements are high, efficient working capital management is crucial. Analysing AXA's practices will help identify gaps and suggest improvements for better financial performance.

This study focuses on analysing the working capital management of AXA Parenterals Ltd. by examining key components such as inventory, receivables, payables, and cash flow. It covers recent financial data to evaluate the company's efficiency in managing short-term assets and liabilities. The study is limited to AXA Parenterals Ltd., offering insights specific to the pharmaceutical sector and its unique working capital challenges.

OBJECTIVES

- To Understand the Concept and Importance Of Working Capital Management
- To Analyze the Components of Working Capital
- To Study the Relationship Between Working Capital Management and Profitability
- To Assess the Cash Conversion Cycle (CCC) And Its Impact on Financial Performance

RESEARCH DESIGN

This study follows a descriptive research design aimed at evaluating the working capital management practices of AXA Parenterals Ltd. It is based on the analysis of secondary data collected from the company's financial statements over the past five years. Key financial ratios such as the current ratio, quick ratio, inventory turnover, and receivables turnover are used to assess the efficiency and effectiveness of working capital utilization. The design helps in identifying trends, drawing comparisons, and suggesting improvements for better financial and operational performance. The study primarily relies on secondary data, which has been collected

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from the published financial statements, annual reports, and official documents of AXA Parenterals Ltd. for the last five financial years. Additional data and insights are sourced from industry reports, research journals, and relevant websites to support the analysis. No primary data (like surveys or interviews) has been used in this study. The collected financial data has been analysed using various accounting and statistical tools to assess the efficiency of working capital management at AXA Parenterals Ltd. Key techniques include ratio analysis, focusing on indicators such as the current ratio, quick ratio, inventory turnover ratio, and debtor turnover ratio. These ratios help evaluate the company's liquidity, operational efficiency, and short-term financial health. Trend analysis is also used to observe changes over time and identify patterns in working capital performance.

DATA ANALYSIS

CURRENT RATIO

Current ratio is the ratio of current assets to current liabilities. Normal operating cycle of the business or within one year, whichever is longer, they include cash in hand and bank, bills receivable, net sundry debtors, stock of raw materials, finished goods and short term or temporary investments.

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

Table -1: Current Ratio

PARTICULARS	2020	2021	2022	2023	2024
Current Asset	280642.6	284269.44	277503.44	239313.63	225273.95
Current Liability	161141.63	113752.77	83211.11	78688.63	118154.1
Current Ratio	1.74	2.49	3.33	3.04	1.90

Source: secondary data

The current ratio (Table 1), which reflects the company's ability to meet its short-term liabilities with its short-term assets, exhibited notable variations during the five-year period from 2020 to 2024. In 2020, the ratio stood at 1.74, indicating a relatively modest level of liquidity. A significant improvement was observed in 2021, with the ratio increasing to 2.49, followed by a peak value of 3.33 in 2022, suggesting a strong capacity to cover current obligations. However, in the subsequent years, the ratio declined slightly to 3.04 in 2023 and then further to 1.90 in 2024. The fluctuation indicates changes in either current assets or liabilities, with 2022 showing the highest level of financial flexibility, while 2020 recorded the lowest. Overall, the trend reflects varying liquidity positions over the years, requiring further analysis into operational and financial factors contributing to these shifts.

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QUICK RATIO

Quick Ratio is used as a measure of the company's ability to meet its current obligations since bank overdraft is secured by the inventories, the other current assets must be sufficient to meet other current liabilities. It indicates whether the firm is in a position to pay its current liabilities within a month or immediately Liquid Assets includes: (a) Cash in hand (b) Cash at Bank (c) Short-term investments.

$$\text{QUICK RATIO} = \frac{\text{LIQUID ASSETS}}{\text{CURRENT LIABILITY}}$$

Table -2: Quick Ratio

PARTICULARS	2020	2021	2022	2023	2024
Current Asset	280642.6	284269.44	277503.44	239313.63	225273.95
Inventory	51565.45	105588.87	74210.81	63893.56	67822.04
Current Liability	229077.15	178680.57	203292.63	175420.07	157451.91
Quick Ratio	0.23	0.59	0.37	0.36	0.43

Source: secondary data

The quick ratio, a more stringent measure of liquidity that excludes inventory from current assets, remained consistently low over the five-year period. In 2020, the ratio was just 0.23, reflecting a limited ability to meet immediate liabilities without relying on inventory. The ratio improved to its highest point of 0.59 in 2021, suggesting a temporary strengthening in liquid asset management. However, it declined in the subsequent years, with 2022 and 2023 registering nearly similar values at approximately 0.37 and 0.36, respectively. In 2024, the ratio showed slight improvement to 0.43. Despite these changes, all values remained below the ideal benchmark of 1, indicating persistent liquidity constraints and highlighting the firm's reliance on inventory and less liquid current assets to meet short-term obligations.

CASH RATIO

The cash ratio is a liquidity measure that shows a company's ability to pay off its short-term liabilities using only its most liquid assets—cash and cash equivalents. It’s the most conservative liquidity ratio because it excludes receivables and inventory. A higher cash ratio means the

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company is in a strong position to cover immediate debts, but too high may also suggest idle cash. A low ratio may signal liquidity risk.

$$\text{CASH RATIO} = \frac{\text{CASH AND CASH EQUIVALENTS}}{\text{CURRENT LIABILITIES}}$$

Table -3: Cash Ratio

PARTICULARS	2020	2021	2022	2023	2024
Cash and Cash Equivalents	834.25	1028.27	1065.99	1148.88	1265.54
Current Liability	161141.63	113752.77	83211.11	78688.63	118154.1
Cash Ratio	0.005	0.009	0.013	0.015	0.011

Sources: secondary data

The cash ratio, which evaluates the company's capacity to settle its current liabilities using only its most liquid assets, consistently remained very low throughout the period under study. In 2020, the ratio was at a minimal level of 0.005, indicating an extremely limited cash reserve relative to current liabilities. A gradual improvement was seen in subsequent years, peaking at 0.015 in 2023, but slightly falling back to 0.011 in 2024. Despite this slight upward trend, the overall cash ratio remained far below the ideal standard, suggesting that the firm may face challenges in meeting immediate obligations without converting other current assets into cash. This persistent low ratio may signal a potential liquidity risk and emphasizes the need for improved cash management practices.

INVENTORY TURNOVER RATIO

The inventory turnover ratio measures how efficiently a company manages its inventory by indicating how many times inventory is sold and replaced during a specific period. A higher ratio suggests strong sales and effective inventory management, while a lower ratio may indicate overstocking or weak sales performance.

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{SALES}}{\text{INVENTORY}}$$

The inventory turnover ratio displayed significant fluctuations over the observed five-year period, indicating changes in inventory movement and sales efficiency. In 2020, the ratio was relatively high at 2.87, suggesting effective inventory utilization. However, a sharp decline occurred in 2021,

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with the ratio dropping to 1.29, possibly due to overstocking or weak sales. Recovery began in 2022 with a ratio of 1.78, followed by gradual improvements to 1.89 in 2023 and 2.22 in 2024.

Table -4: Inventory Turnover Ratio

PARTICULARS	2020	2021	2022	2023	2024
Sales	147872.95	136445.47	131854.87	120834.99	150484.24
Inventory	51565.45	105588.87	74210.81	63893.56	67822.04
Inventory turnover ratio	2.87	1.29	1.78	1.89	2.22

Sources: secondary data

This upward trend in recent years implies a renewed focus on efficient inventory management and improved sales performance. The overall variation reflects the company's efforts to optimize inventory levels while responding to changing market dynamics.

ANALYSIS OF FINDINGS

The research findings derived from the data analysis highlight notable trends in the company's liquidity performance over the years. In 2020, the company achieved a commendable current ratio of 1.74, indicating a balanced relationship between inventory restocking and sales, especially when compared to previous years that fell below the ideal benchmark. However, the quick ratio for the same year was at its lowest at 0.23, signaling weak immediate liquidity and a heavy reliance on inventory. In 2021, the quick ratio improved significantly to 0.59, suggesting better capacity to meet short-term obligations without depending on inventory. Despite this progress, the ratio declined in 2022 and remained nearly stagnant at around 0.36 in 2023, reflecting a lack of further improvement in the company's short-term liquidity. A slight recovery was observed in 2024 with the quick ratio rising to 0.43, although it continued to fall short of the ideal value of 1, emphasizing ongoing dependence on inventory to cover liabilities.

Managers

Managers should prioritize strengthening the company's immediate liquidity position, as reflected in the consistently low quick and cash ratios. Increasing liquid asset reserves such as cash and reducing excessive reliance on inventory is crucial. Enhanced inventory planning can further improve the inventory turnover ratio, which has shown improvement in recent years. Implementing tighter credit control policies, improving receivables collection, and optimizing

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procurement cycles would contribute to better working capital management. Strategic decisions on cash flow forecasting should also be integrated with operational planning.

Policy Makers

Policy makers should consider facilitating easy access to short-term financing for mid-sized pharmaceutical companies like AXA Parenterals Ltd., especially during liquidity crunches. They should encourage industry-specific financial literacy programs that guide firms on maintaining optimal liquidity and inventory levels. Policies that offer incentives for efficient working capital usage, such as tax benefits or interest subsidies on working capital loans, can motivate better liquidity practices across the sector.

Industry Development

The pharmaceutical industry should adopt standardized benchmarks for working capital ratios, especially for SMEs, to promote competitive performance tracking. The industry should invest in digital inventory management systems and real-time liquidity monitoring tools to ensure accurate and timely financial decisions. Collaborations between firms and fintech platforms can help streamline cash management and forecasting, improving operational efficiency.

Scholarly Contribution

Researchers can explore sector-specific working capital behavior by comparing pharmaceutical firms across different regions or company sizes. Further empirical studies could examine the impact of liquidity ratios on firm value or the relationship between inventory management and supply chain resilience post-COVID-19. Comparative studies involving pre- and post-pandemic data could offer insights into how firms adjust financial strategies during global disruptions.

Scope for Further Study

This study opens several promising avenues for future research aimed at enhancing the understanding of financial efficiency within the pharmaceutical sector. A comparative analysis between AXA Parenterals Ltd. and other mid-sized pharmaceutical companies across India could provide broader insights into industry-specific liquidity management practices. Additionally, a focused investigation into the correlation between liquidity ratios and profitability may reveal critical links that influence financial performance. Exploring the impact of credit policies and receivables management on working capital efficiency would also offer valuable perspectives on financial control mechanisms. Furthermore, analysing seasonal patterns in inventory turnover could help identify challenges in demand forecasting and inventory planning. Lastly, examining

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the integration of ERP and AI tools in managing working capital could shed light on how technological advancements are transforming financial operations in pharmaceutical firms.

Limitations

AXA Parenterals Ltd., which may not reflect real-time operational challenges. The analysis is limited to a five-year period, which may not capture long-term trends. Additionally, the study does not include primary data such as interviews or surveys with company personnel, which could provide deeper insights. External factors like market fluctuations, economic conditions, and industry-specific challenges have not been considered in detail.

Conclusion

The study highlights the critical role of effective working capital management in ensuring the financial stability and operational efficiency of AXA Parenterals Ltd. Through the analysis of key financial ratios and trends, it is evident that managing components like inventory, receivables, and payables significantly impacts the company's liquidity and profitability. Although AXA has shown consistent growth, there is scope for improvement in optimizing its working capital cycle. With better inventory control, efficient credit management, and the use of modern financial tools, the company can strengthen its financial performance and maintain a competitive edge in the pharmaceutical industry.

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