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“Working Capital Management and Its Impact on Profitability- A Study on Glaxo SmithKline Bangladesh Ltd.”

Internship Supervisor

N. M. Baki Billah

Lecturer

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Submitted By:

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Letter of Transmittal

To

N. M. Baki Billah

Lecturer

BRAC Business School

BRAC University

Subject: Submission of internship report on “Working Capital Management and Its Impact on Profitability- A Study on Glaxo SmithKline Bangladesh Ltd.”

Dear Sir,

This is my great pleasure to submit the Internship report of my three months long Internship program in the Glaxo SmithKline Bangladesh in the department of Finance. The title of the report is “Working Capital Management and Its Impact on Profitability- A Study on Glaxo SmithKline Bangladesh Ltd.”

This report has been prepared to fulfill the requirement of my internship program at my assigned organization in Glaxo SmithKline Bangladesh. I have put my best effort to make this report a successful one. It has been joyful & enlightening experience for me to work in the organization & prepare this report. However this has been obviously a great source of learning for me to conduct similar types of studies in the future.

I would like to express my sincere gratitude to you for your kind guidance & suggestions in preparing the report. It would be my immense pleasure if you find this report useful & informative to have an apparent perspective on the issue. I shall be happy to provide any further explanation regarding this report if required & please do not hesitate to call me if you have any query on this report or any other relevant matters.

Sincerely:

Amir Obaidul Huq Chowdhury

Acknowledgement:

The successful accomplishment of this project work is the outcome of the contribution of a number of people, especially those who have given the time and effort to share their thoughts and suggestions to improve this report. At the very beginning I would like to express my deepest gratitude to Almighty Allah for giving me the strength and the composure to finish the task within the scheduled time.

I would like to thank my line manager, Fakhruddin Mahmud, Marketing and Trade Finance Manager, Finance, GSK Bangladesh Ltd, for rendering his valuable time and providing me with various information which was very much needed for the successful completion of this report.

I am also thankful to my fellow colleagues of Glaxo SmithKline Bangladesh who gave me their valuable time and enough information to successfully make this report. I also want to thank my University friends for their encouragement and support while making this report.

Executive Summary

This study tries to explore the impact of working capital management on profitability of Glaxo SmithKline Bangladesh Ltd. one of the leading multinational corporations in Bangladesh. Working Capital can be defined as the amount when current asset is surpassing current liabilities. The focus of this paper is to analyze how the company manages its working capital on the basis of cash, inventory period, receivable period and payable period management and how it influence the profitability of an organization.

This project paper starts with the objective of the study and the methodology. The project paper contains the analysis of 4 years data of GSK commencing from the year 2003 to 2016.

Most of the researchers found that degree of efficiency of administration of working capital largely determines the success or failures of overall operations of an organization. The objective of this report is to analyze the previous studies and relate them with this paper.

Afterwards description of the company including its history, products, mission, vision, organization structure etc. In the fiscal year 2013-14 GSK made more than 24 crore taka as Net Profit. They follow aggressive WCM policy because of their higher utilization of short term financing. Inventory management performance is evaluated using inventory conversion period. GSK's time gap between collecting money from the creditors is very satisfactory. The organization tries to delay the accounts payable as much as possible. The time taken by GSK to make payments to creditors is around 256 days.

Analysis of the collected data is presented at the last. It contains descriptive, ratio analysis of the variables with proper interpretation and it was found that there is relationship between profitability and working capital components. The analysis shows that receivable period is negatively related with profitability and other variables are positively related. Finally findings and conclusion chapter includes a summary of the results found in the analysis portion.

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Introduction

The pharmaceutical industry has been recognized as one of the most developed and hi-tech sectors in Bangladesh's economy. The local companies of our country enjoyed a rapid growth and strong support and development due to the promulgation of Drug Control Ordinance in 1982. However this was a back lash for the MNC's. 231 companies in this sector with a market size of Taka 76500 Million per year. The industry is now heading towards self-sufficiency in meeting the local demand. After garment the second largest contributor and the largest white-collar intensive employment sector of the country.

In Bangladesh there are about 450 generics registered. Among these 450, 117-controlled category (essential drug list), 333-decontrolled category. There are 5300 numbers of brands and items that are registered in Bangladesh currently. Local manufacturers dominate the pharmaceutical industry, enjoying a market share of 80%, while the MNC's accumulate to 20%. The industry growth stands at \$1.13 billion in terms of value. This has been made possible due to decreasing dependence on imported drugs. Local companies meet 97% of the local demand and the rest 3% are imported. Imports consist of cancer drugs, vaccines for viral diseases, hormones, etc. Local companies have managed to replace the imported medicines in quality and quantity, additionally they have reached a position to capture the abroad markets.

Top leading pharmaceutical companies in Bangladesh are: Sqaure Incepta Pharma, Beximco, Oposnin Pharma, Eskayef, Renata, A.C.I, Aristopharma, Drug International, Sanofi Aventis, and Glaxo SmithKline. The market share of the following companies are given below.

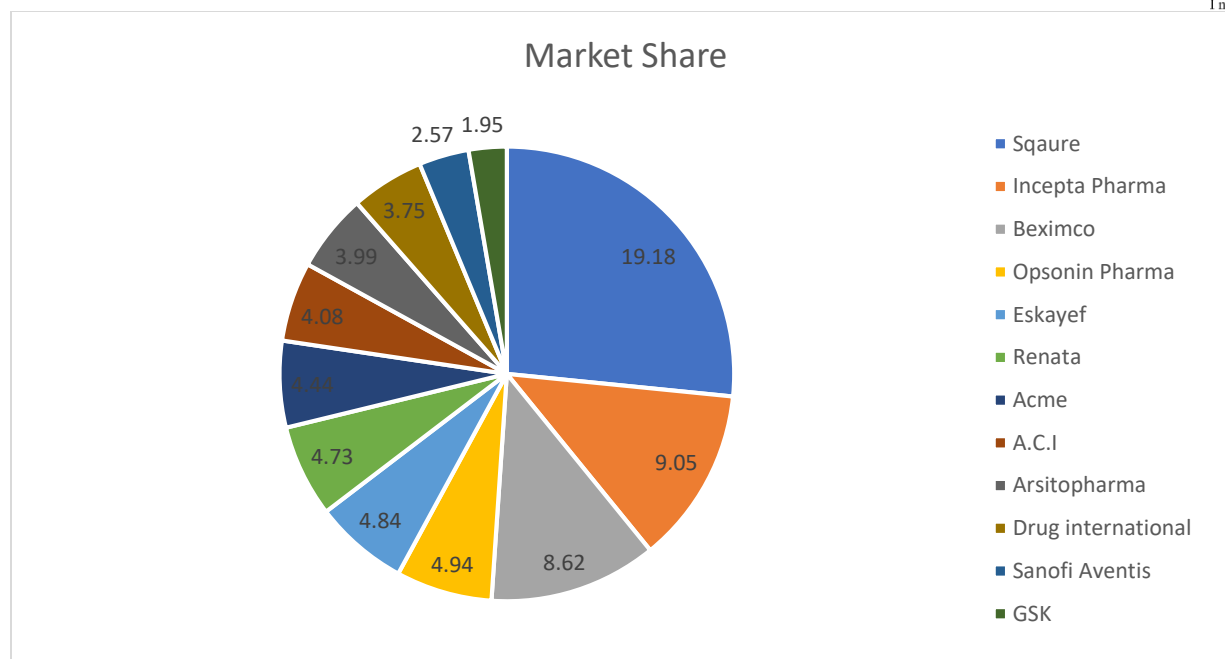


Figure: 1 GSK's market share among other top companies in Bangladesh.

GSK Bangladesh Limited has running its operation as a subsidiary of Glaxo SmithKline Private Limited Company for over six decades. GSK Plc is one of the world's leading research-based pharmaceutical and healthcare companies. GSK Bangladesh has managed to secure the 12th position among other pharmaceutical companies in this country, with their high ethical standards backed with quality and cutting edge technology. More than 701 personnel spread out all over the country, GSK now offers both pharma and consumer product to the Bangladesh market. It offers a 66 wide range of pharma products and 15 consumer products to the people of this country.

Objective of the study

This report aims to study the relationship between the working capital and the profitability of GSK Bangladesh.

Specific objective:

The following relationships should be taken into consideration for the purpose of validating the general objective of the study.

1. To identify the existence of any significant relation between the Average Collection Period (ACP) and Profitability of the firm.

2. To identify the existence of any significant relation Inventory Conversion Period (ICP) and Profitability of the firm.
3. To identify the existence of any significant relation Average Payment Period (APP) and Profitability of the firm.
4. To identify the existence of any significant relation Cash Conversion Cycle (CCC) and Profitability of the firm.

Research Hypotheses:

1. H₀₁: There is no significant relationship between Average Collection Period and Profitability of the firm.
2. H₀₂: There is no significant relationship between Inventory Conversion Cycle and Profitability of the firm.
3. H₀₃: There is no significant relationship between Average Payment Period and Profitability of the firm.
4. H₀₄: There is no significant relationship between Cash Conversion Period and Profitability of the firm.
5. H₀₅: There is no significant relationship between Sales and Profitability of the firm

Scope of the study:

The scope of this study is limited to the analysis of the present financial performance of GSK Bangladesh Limited, and to the analysis of the financial reports acquired from the annual reports to justify whether working capital has any correlation with the performance and profitability of the firm.

Methodology

Type of Research:

Explanatory research has been applied in this study. The research is designed to evaluate the performance of the GSK Bangladesh with working capital.

Research Method:

The research method employed was mostly empirical review method. Annual reports and journals were the major source of secondary data. Additionally, discussions with managers and employees has given more insight and information in order to provide a better understanding on this matter.

Sources and Method of Data Collection

To conduct this research both secondary and primary sources was utilized for data collection.

Primary Data

- Face to Face Interviews:
Interviews were conducted with Finance and Trade Finance managers. They addressed some open ended questions on various aspects of working capital management and performance of the firm
- Observing Day to Day Processes:
The day to day operations and processes has been a great source of learning and information for this research.

Secondary Data

Secondary data was collected from the following sources:

- Annual Reports
- Journals

Limitations of the study

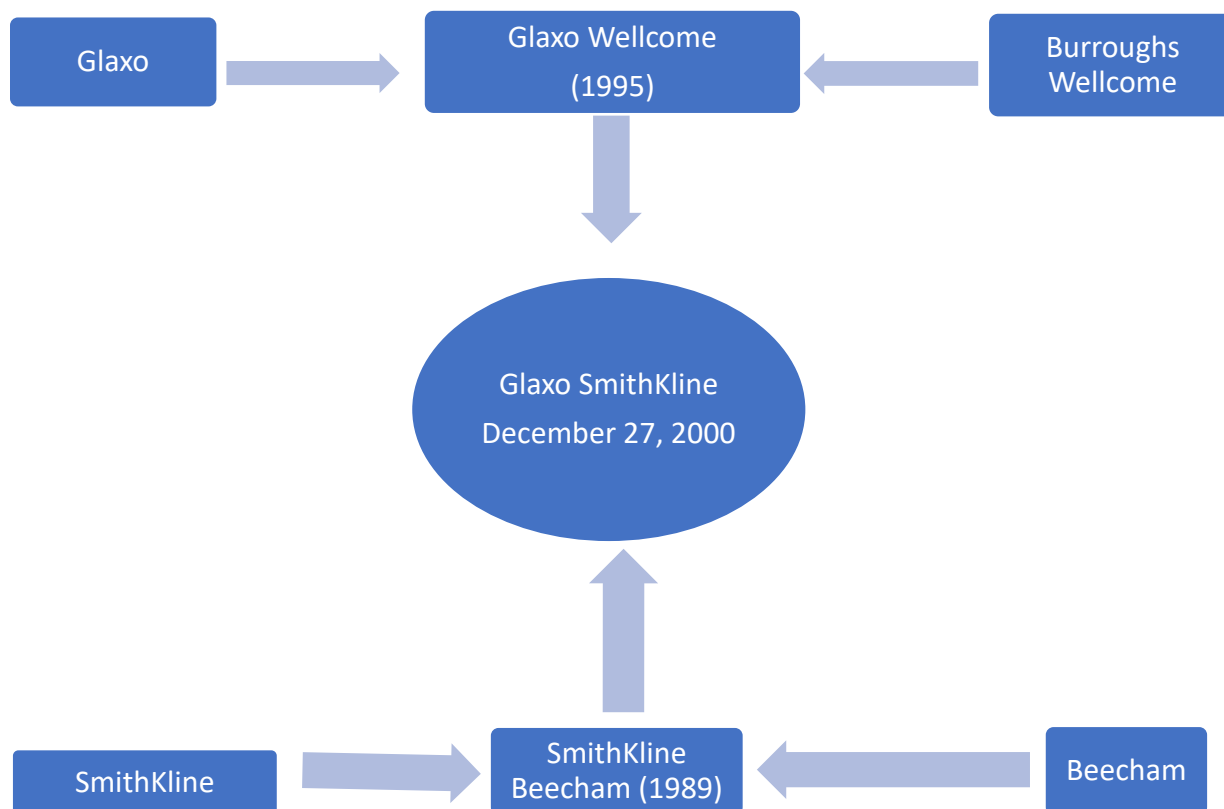
- Time constraint was a major challenge. My tenure at GSK was only three months. More time would have given me the access to more data and insight.
- Information was limited to the ones published in the annual reports. Most data collected during my internship period was restricted to published due to confidentiality.
- Respondents showed reluctance to share information they thought to be confidential.

Organizational Overview

GSK Bangladesh Limited has running its operation as a subsidiary of Glaxo SmithKline Private Limited Company for over six decades. GSK Plc is one of the world's leading research-based pharmaceutical and healthcare companies. GSK Bangladesh has managed to secure the 12th position among other pharmaceutical companies in this country, with their high ethical standards backed with quality and cutting edge technology. More than 701 personnel spread out all over the country, GSK now offers both pharma and consumer product to the Bangladesh market. It offers a 66 wide range of pharma products and 15 consumer products to the people of this country

Glaxo SmithKline- In Short:

GSK's Timeline:



Mission:

Improve the quality of human life by enabling people to do more, feel better and live longer.

Vision:

The opportunity to make a difference to millions of lives every day.

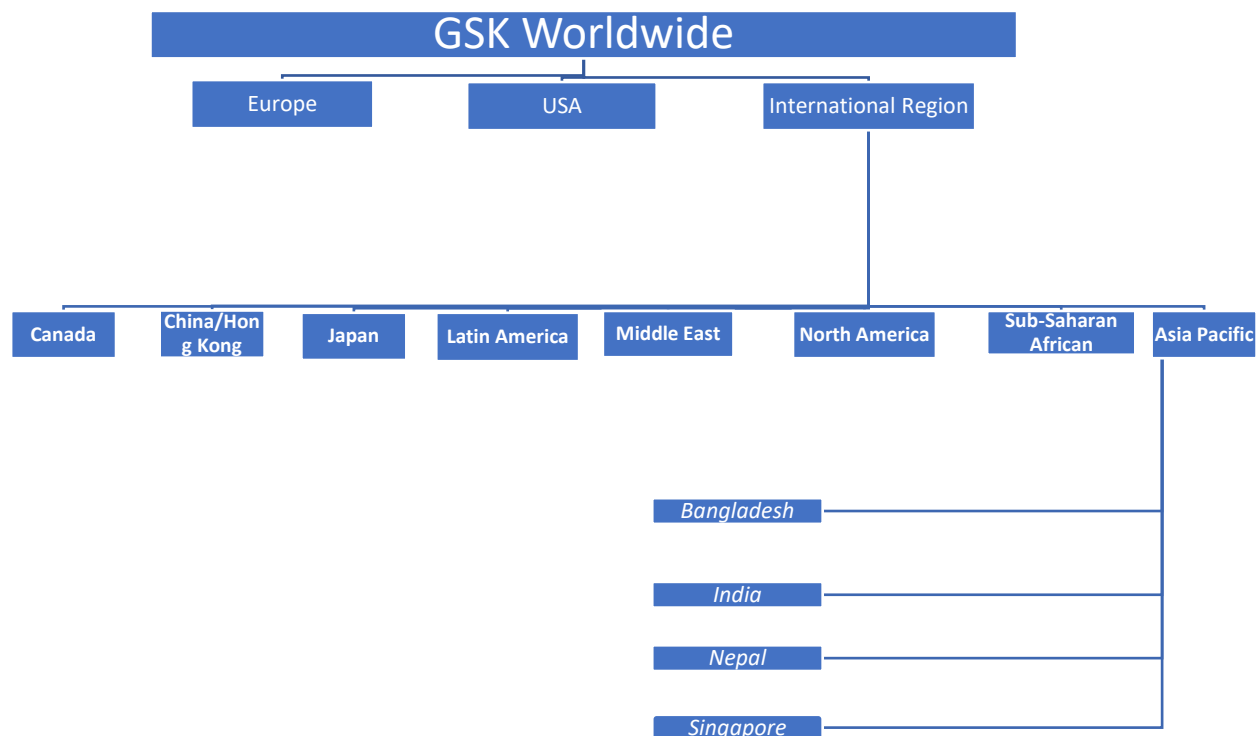
Strategies:

Grow a diversified global business. Deliver more product of value, simplify the operating model, individual empowerment and build trust.

Values:

Transparency, respect for people, integrity, patient focus.

GSK's Global Operation:



Internship at GSK

Details:

Three months: August 2nd to November 2nd

Department: Trade Finance

Line Manager: Fakhruddin Mahmud, Marketing and Trade Finance Manager, Consumer Health Division, Glaxo SmithKline Bangladesh Ltd.

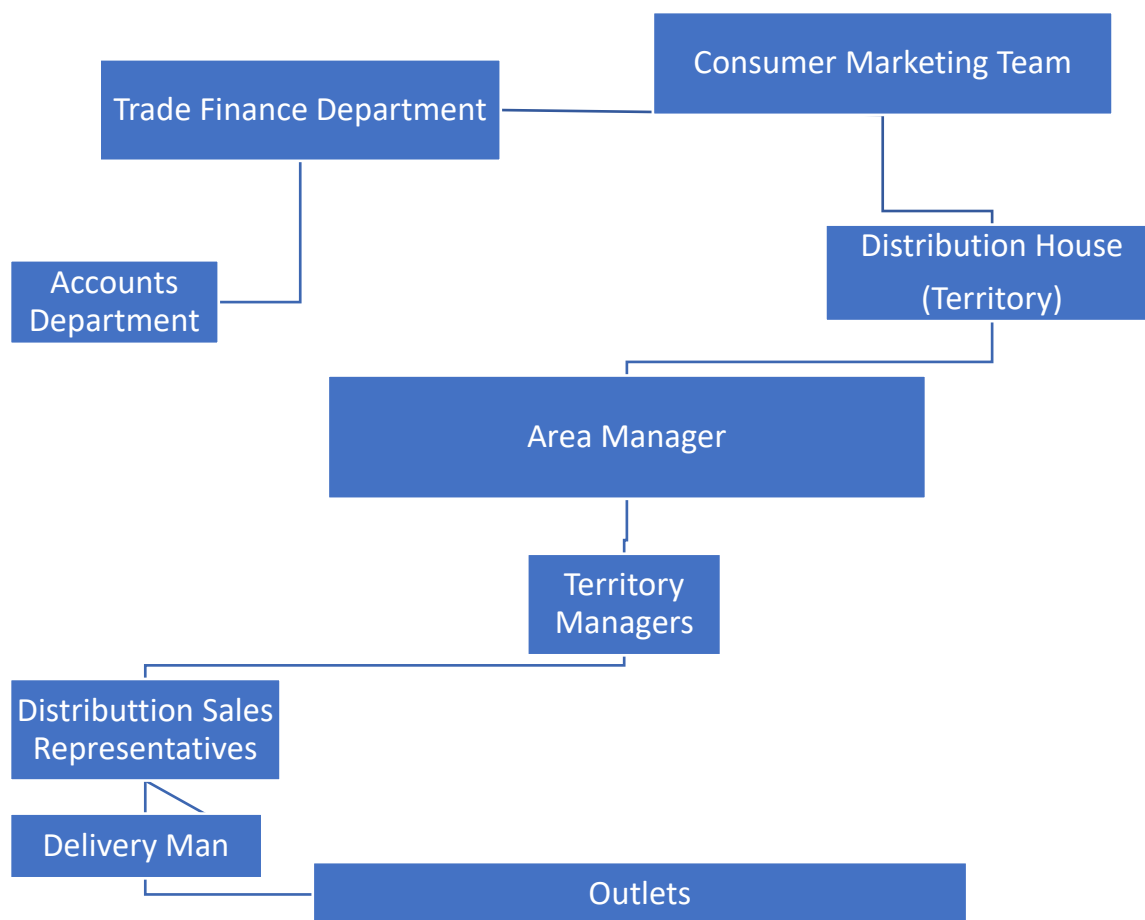
Job Description:

- Maintaining records of all the delivery man and sales representatives
- Maintaining record of claims and incentive of consumer goods
- Ensuring the claims have performed as per their target
- Disburse the claims as per GSK's modality

Responsibility:

As an intern of the Trade Finance Team my responsibility encompassed receiving all the claims from the distribution houses and ensuring that all the targets have been met according to the modality. If so, the claims are then updated into the system where managers from all department could access it. It was always a challenge to this task as the modality changed every other month. Modality needed to verify by the sales department as they have set it and must be checked for all DSRs and DMs. Furthermore my responsibility also entitled ensuring all the SDRs are properly reported and update in the system and analyzing the database with different quarters, different territories and for different products individually. These SDR reports were generated monthly and analysis was done according to the managers need. My support was available for anyone needed a hand when they were facing a lot work pressure. I have helped the accounts department when needed and also the supply chain team as they work closely with the trade finance team. However I have only provided my support when my line manager has authorized it. My experience at GSK was a pleasant one, everyone there was very polite and encouraging. I had an induction class where I was introduce to everyone and tasks I will be handling. GSK has a very dynamic environment where they encourage team work, synergy and time management.

Sales Organogram:



- **Sales Department:** The Head of Sales along with his sales team sets targets and rates (Modality) for each territories. More specific targets are set for each SKU called the Distribution Drives. The Distribution Drive (D1, D2, D3, D4, D5) are for the products Horlicks, Glaxose, Boost, Sensodyne Tootpaste and Sensodyne Toothbrush. There are three kind of territories Metro, Other Town and Rural. Commission rates are set differently set for different territories. These modalities are communicated to the distributions houses all over the country and the trade finance team.
- **Distribution House:** The area manager receives the modality and communicates them to his team of territory managers.

- Area Manager (AM): An area consist of several territories. The area manager keeps track of the all the sales in his territory and also manages the stock destruction reviews (SDR). It is vital that the AM keeps track of all the inventory and inventory that has expired. The expired inventory database called the SDR are created here which physical check and then disposed and destroyed. However the AM needs to notify the Head Office especially the Trade Finance Team before destroying it.
- Territory Officer (TO): A TO's has almost the same responsibility as the AM, however at a smaller magnitude as they manage only one territory. Their responsibility encompasses managing sales in their territory and keeping track of SDR.
- Distribution Sales Representatives (DSR)/ Delivery Man (DM): DSR and DM must perform as per the modality and distribution drive communicated to them. If achieved they will receive their incentive as the rates set the Sales Team. DSR and DM responsibility is to access all the outlets in the territory and supply them with the products and maintain proper documentation for the TO's to check.
- Trade Finance Team: Each distribution house sends all the documents of sales and SDR to the Trade Finance Team at the head office. Where all the claims are check for proper documentation, authorization and finally that all the DSRs, DMs have performed as per their modality and distribution drive. If performed as per their targets the DSRs and DMs are approved for the claims they have sent and the claims are sent to the Accounts Department for cash disbursement.

Infrastructure:

In GSK's infrastructure, there are four major departments-

- Finance
- Customer Marketing Team
- Sales
- General Management

The modality of different claims and incentives of distributors of GSK, sales target, and other plans are jointly made by the Finance department and Customer Marketing Team. When these sales

related planning is finalized by the CMT (Customer Marketing Team), they send it to Finance Department for approval. Sales Department gets the finalized and approved modality for sales planning, sales target for distributors and budgets for particular distributors. Sales Department implements the plans and directly connects with the distributors through Area Managers, and Territory Officers. On the other hand, general management oversees the overall activities.

Human Resource Activities:

Human Resource Department supports the organization by hiring employees who comply with GSK's employee standard. The main activities of this department are recruiting as per any department's requirements and need, development of the employees through training, motivating the employees within the workplace, and rewarding them with right kind of incentives.

Technology Development:

Technology development ensures that the processing of information is carried out in the right way. The technology development is conducted by IT department but in GSK, the technology development is often outsourced. For example, in recent times, GSK initiated CERPS in their organization and for the initiation of SAP software and training the employees for it, they outsourced an IT team with the help of GSK India.

Procurement:

Procurement department at GSK works in acquiring materials from the most suitable place. In consumer department this materials include the complementary products they provide with the original products as part of marketing. This is because the raw materials are imported from Indian subsidiaries. So, the main concentration is given on the complementary product as part of GSK's offering with their original products.

Primary Activities:

Inbound Logistics:

GSK's inbound logistics are concerned with receiving and storing materials. Things they supervise and control as part of this department are-

Collection services:

- Time taken for collection of material
- Request processing time

Plant information:

- Plant scheduling
- Plant capacity
- Proximity to plant

Operations:

Operations include the production of products or services to convert inputs into outputs. In GSK, three major factors are supervised under this-

- Product Quality as per global standard
- Quality expectation of customers
- Order fulfillment (From GDK to distributor)

Outbound Logistics:

In the process of delivering the goods to distributors' point, the following are given the most priority at GSK-

- Order fulfillment (Distributor to Retailer)
- On time delivery
- Inventory management
- Transaction management
- Reporting, reconciliation, audit, invoice trailing etc.
- No-Objection Certificate collection from distributors at the end of an accounting year

Marketing and Sales:

Marketing and sales department works closely at GSK. Sales team directly works with the customers and distributors and gives feedback to the Marketing team. Based on field data from Sales department, marketing department develops insights. In GSK, Marketing department works on the following points-

- Understanding the customer requirements and preferences
- Understanding how customers value GSK products
- Helping in determining the Pricing of the products

Services:

GSK's service to its customers is conducted through the distributors. GSK maintains its relation with distributors so that they work closely with the customers to understand their complains, or requirements. However, GSK keeps records of the time they take to resolve a problem from their customers.

This is the overall picture of GSK's value chain management. The organization works closely to improve by making improvement to these activities throughout the organization. They also implement process reengineering if in any point they feel the system should be improved. Moreover, the cost allocation system to different activities of their value chain is also constantly developed.

Research

Working Capital Management

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 liability, to ensure the most financially efficient operation of the company.

Introduction:

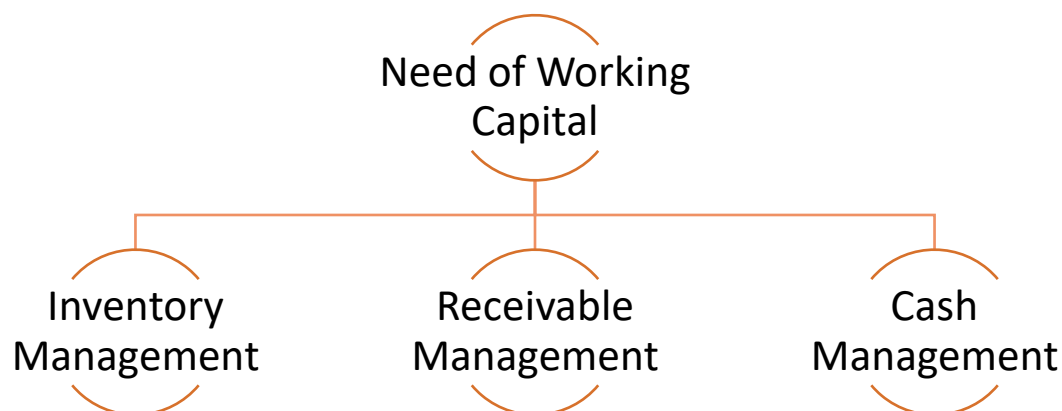
Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintain sufficient cash flow to meet its short-term operation costs and short-term debt obligation. Working capital commonly involves monitoring cash flow, assets and liability through ratio analysis of key elements of operating expenses, including the working capital ratio, collection ratio and inventory turnover ratio. Efficient working capital management helps with a company's smooth financial operation, and also

help to improve the company, earnings and profitability. Management of working capital includes inventory management and management of accounts receivables and accounts payables. The working capital ratio, calculated as current assets divided by current liabilities, is considered a key indicator of a company's fundamental financial health since it indicates the company's ability to successfully meet all of its short-term financial obligations. Although numbers vary from industry. Although numbers vary by industry, a working capital ratio below 1.0 is generally indicative of a company having trouble meeting short-term obligations, usually due to insufficient cash flow. Working capital ratios of 1.2 to 2.0 are considered desirable, but a ratio higher than 2.0 may indicate a company is not making the most effective use of its assets to increase revenues.

The collection ratio, also known as the average collection period ratio, is a principal measure of how efficiently a company manages its accounts receivables. The collection ratio is calculated as the number of days in an accounting period, such as one month, multiplied by the average amount of outstanding accounts receivables, with that total then divided by the total amount of net credit sales during accounting period. The collection ratio calculation provides the average number of days it takes a company to receive payment, in other words, to convert sales into cash. The lower a company's collection ratio, the more efficient its cash flow.

The final element of working capital management is inventory management. To operate with maximum efficiency and maintain a comfortable high level of working capital, a company has to carefully balances sufficient inventory on hand to meet customer's needs while avoiding unnecessary inventory that ties up working capital for a long period of time before it is converted into cash. Companies typically measure how efficiently that balance is maintained by monitoring the inventory turnover ratio. The inventory turnover ratio, calculated as revenues divided by inventory cost, reveals how rapidly a company's inventory is being sold and replenished. A relatively low ratio compared to industry peers indicates the inventory levels are excessively high, while a relatively high ratio indicates the efficiency if inventory ordering can be improved.

Need of Working Capital Management:



Factors Affecting Working Capital:

- Nature of business
- Production policy
- Credit policy
- Inventory policy
- Abnormal policy
- Market condition
- Conditions of supply
- Business cycle
- Taxation policy
- Dividend policy
- Operating efficiency
- Price level changes
- Depreciation policy
- Availability of raw material

How Much Working Capital Is Needed?

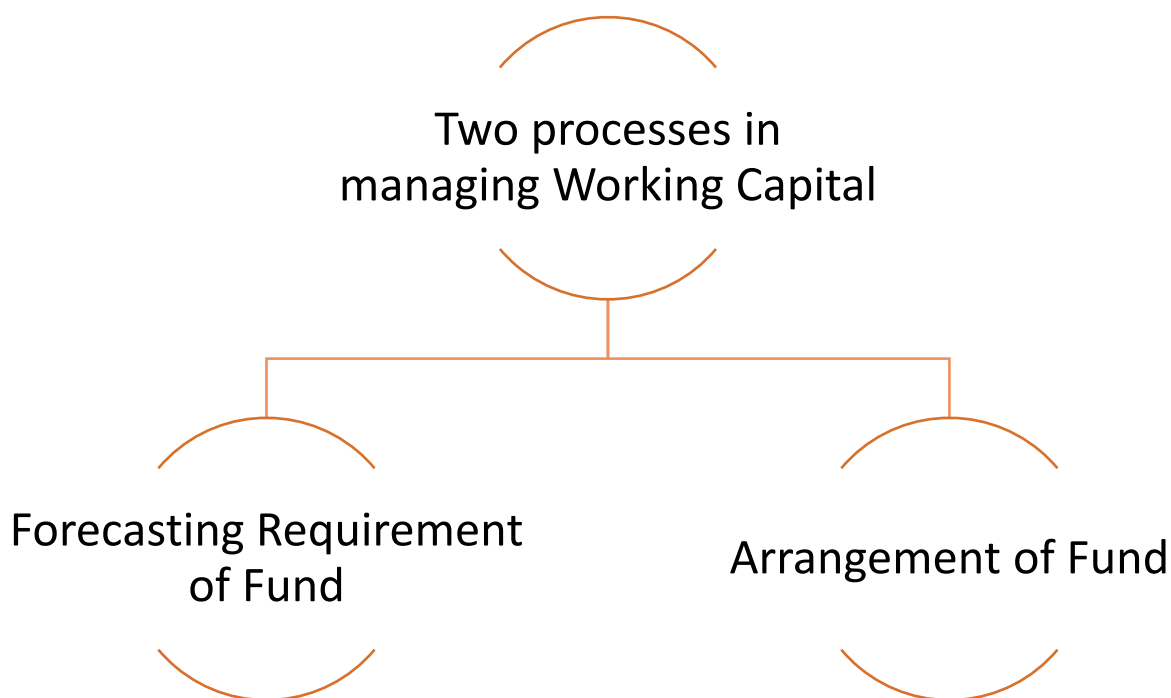
It depends on the following factors:

- Size of the firm
- Activities of the firm

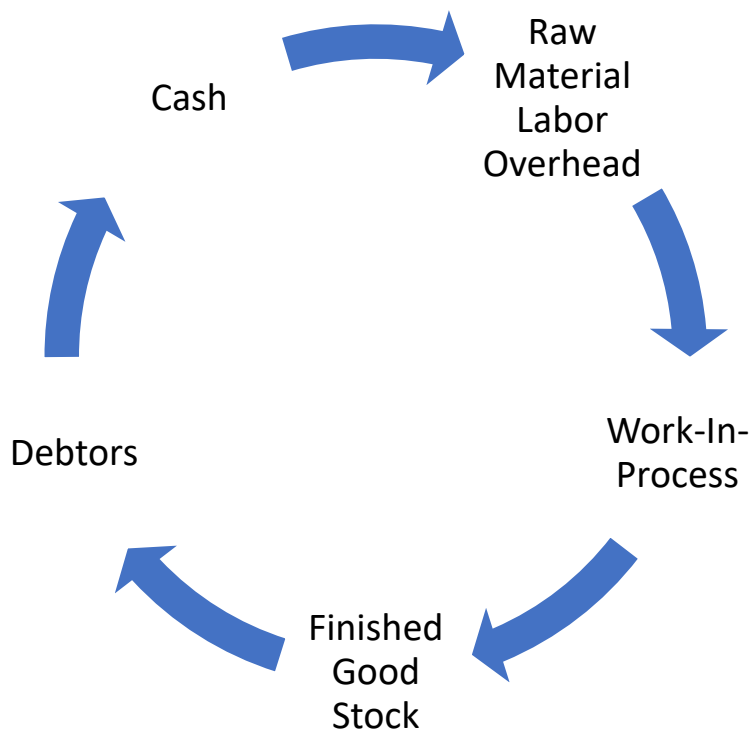
- Availability of credits
- Attitudes towards profit
- Attitude towards risks
- Others

Importance of Adequate Working Capital:

- Smooth running of business
- Profitability with manage risk
- Growth and development possibility
- Smooth payment
- Increase in goodwill
- Trade relationship better
- Others



Working Capital Cycle:



The determination of WC helps in forecast, control and management of working capital. The duration of working capital may vary depending upon the nature of business. The duration of working capital cycle for the purpose of estimating working capital is equal to the sum of duration of each of above events less the credit period allowed by the suppliers. For example, a company holds material on average for 60 days, it gets credit form suppliers for 15 days, production process needs 15 days, finished products are held 30 days, and 30 days is the total working capital. So, $60+15+30+30=120$ days

Various Components of Working Capital Cycle:

- Raw Material Shortage Period = Avg. stock of raw material / Average cost of raw material consumed per day
- WIP Holding period = Avg. WIP inventory / Avg. cost of production per day
- Finished goods storage period = Estimated production / 360 days
- Finished goods storage period = Avg. stock of finished goods / Avg. cost of goods sold per day
- Debtor Collection Period = Avg. Debtors / Avg. cost of goods sold per day

- Payable collection Period = Avg. rate credit / Avg. credit purchase by day

Working Capital Policy / Approaches

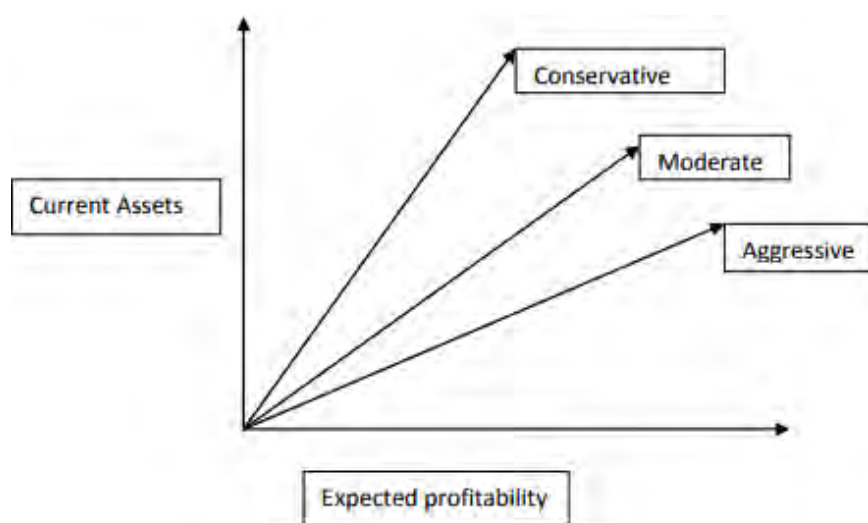
- Conservative Approach
- Aggressive Approach

Conservative Approach:

A firm financing its common permanent assets with long term financing and less risky so far as insolvency is concerned. However funds may be invested in such investment which fetched small returns to build up liquidity

Aggressive Approach:

The firm uses only short term financing. In this approach, the firm finances a part of the permanent assets with the short term financing. This approach refers to more risky.



Literature Review:

This section talks about how a firm's monetary performance is affected by Working Capital Management (WCM). It first gives an overview of Working Capital (WC), followed by defining what WCM is. Present in this section is also a summary of the literature review as well as the results of the major studies. The knowledge gap that was found after conducting the study is also included, along with the hypothesis of the project at the very end.

Very simply put, WC is the difference between Current Asset (CA) and Current Liability (CL). It can be represented as $WC = CA - CL$ (Preve and Allende, 2010).

WCM is the management of CA and CL in the most optimal way so that it results in an increase in the value of the shareholders (Sarniloglu and Demirgunes, 2008). Furthermore, WCM is necessary because it affects the firm's liquidity position as well as the profits that are yet to come in the future (Taleb et al., 2010). A majority of the companies nowadays view mismanagement of WC as a major problem and are trying to adapt new policies and course of action that will lead to a much more efficient WCM (Gitman, 1994; Binti et al., 2010; Alipour, 2011; Ademola, 2014).

The importance of WCM is such that researches from various disciplines have carried out multiple analyses between WCM and the firm's performance. A study carried out in Japan on 2123 non-financial institutions found out that FP can be boosted by decreasing the Cash Conversion Cycle (CCC) (Nobanee et al. 2011). WCM covers the major portion of capital in small and large organizations and is also important in managing the elements of supply chain.

According to Nwankwo and Osho (2010) WCM involves the proper mixture CA as well as CL to efficiently run the businesses in terms of energy, goodwill and time. In another study carried out by Singh and Asress (2011) suggested that a well-organized WCM considerably affects a firm's performance and short term solvency. All in all, the main purpose of WCM is to ensure that the firm has enough cash to operate and meet its daily needs.

Shaw (2006) suggested that if a firm is able to properly manage its WC and capitalizes on short term opportunities, the firm will be able to increase its profitability. Deloof (2003) said that a financial manager's chief task is to increase sales volume as well as the profitability of the firm and for this reason efficient WCM is indispensable as it directly has an impact on the firm's profitability and liquidity position.

Gulia (2014) in his study found the impact of WCM on the profitability of the pharmaceutical sector by choosing sample of 60 leading firms of the sector, the analysis was conducted by using correlation and multiple regression analysis and the results clearly stated that WCM has a positive and significant impact on firms performance. Forghani et al. (2013) targeted 56 companies of Iran listed in Tehran stock exchange to scrutinize the connection between WCM and FP of the companies. Key performance measures such as ROA, ROE, and ratio of market value to book

value of the company (P/B) were taken as variables. The study concluded that there is a positive and considerable relationship between performance and WCM. Moreover, this study indicates that managers can use better strategies for WCM to improve the profitability

In addition, Lazaridis and Tryfonidis (2006) tried to establish a connection between the profitability of a firm and WCM. Within the period of 2001 to 2004, a sample of 131 different firms was collected to be tested with regression analysis. In conclusion, the existence of statistical significance amongst the two variables was proven. With the help of regression and correlation analysis, Eljelly (2004) examined the influence of WCM on the performance of firms based in Saudi Arabia. Furthermore, a vital study was conducted by Ghosh and Maji (2003), Rajesh et al. (2011) by considering cement companies of India and establishing a positive correlation amongst WCM indicators, i.e. ACP and FP proxy, i.e., Earnings before interest and taxes (EBIT).

A study was conducted upon firms concentrated in manufacturing listed in Karachi Stock Exchange (KSE) by Qureshi (2014) to evaluate the involvement of one component of WCM on the returns of the firms. The study results confirmed that there is a strong negative correlation of WCM elements with firms' FP it was also concluded that as CCC swells, consequently, the profitability of the corporation decreases. Alavinasab (2013) considered 147 companies enlisted in the Tehran stock exchange and studied the relation between WCM and profitability from 2005 to 2009. The result of this study also verified a negative relationship between the factors involved.

Uremadu et al. (2012) provided the result which highlighted a positive relation amongst ACP and the return of companies. Another similar study was conducted by Bagchi and Khamrui (2012) but this time the factors were WCM and profitability of the firms. The result of this study was confirmed to be unrelated as well. FP. Amarjit and Biger (2010) indicated that there is a negative link of ACP with profitability on the other side, CCC have positive relationship with profitability. After completion of his study of the effect of WCM on firm's performance, Padachi (2006) stated that inventory days and CCC are positively related with profitability, however, Account payable days and account receivable days have negative relationship with firm's performance.

After analyzing all the distinct and praise worthy works of all the above mentioned notable figures, it is safe to conclude that a firm can enjoy bigger shares of profit if they have an established WCM strategy. They included that a firm can increase its profit figures by maintaining a small portion of shares and receivables while a significantly larger volume of payables. The major part of literature

review mentioned above typically focuses on the association of the WCM with firms' FP. Most of the researchers have applied correlation and multiple regression analysis to empirically test the impact of WCM elements on firms' performance. Many results of these studies have been found to be rather contradictory.

In addition, the evidence that WCM also affects the performance of firm is very notable. All the researchers conducted involve different time frames, different sample size, different industry etc. From this, we can state that WCM is vital in every format of the corporate world. Unfortunately, the studies cannot be considered as fully successful. The literature review quite evidently proved the lacking of sufficient empirical data and analysis. We found in literature that there are only few research studies, i.e. (Abor and Joshua, 2004; Raheman and Nasr, 2007; Majeed et al. 2013; Malik and Mahumad, 2014; Ahmad et al. 2014; Qureshi, 2014; Mobeen et al. 2011; Azam and Haider, 2011) are performed on these selected manufacturing firms listed in case of Pakistan.

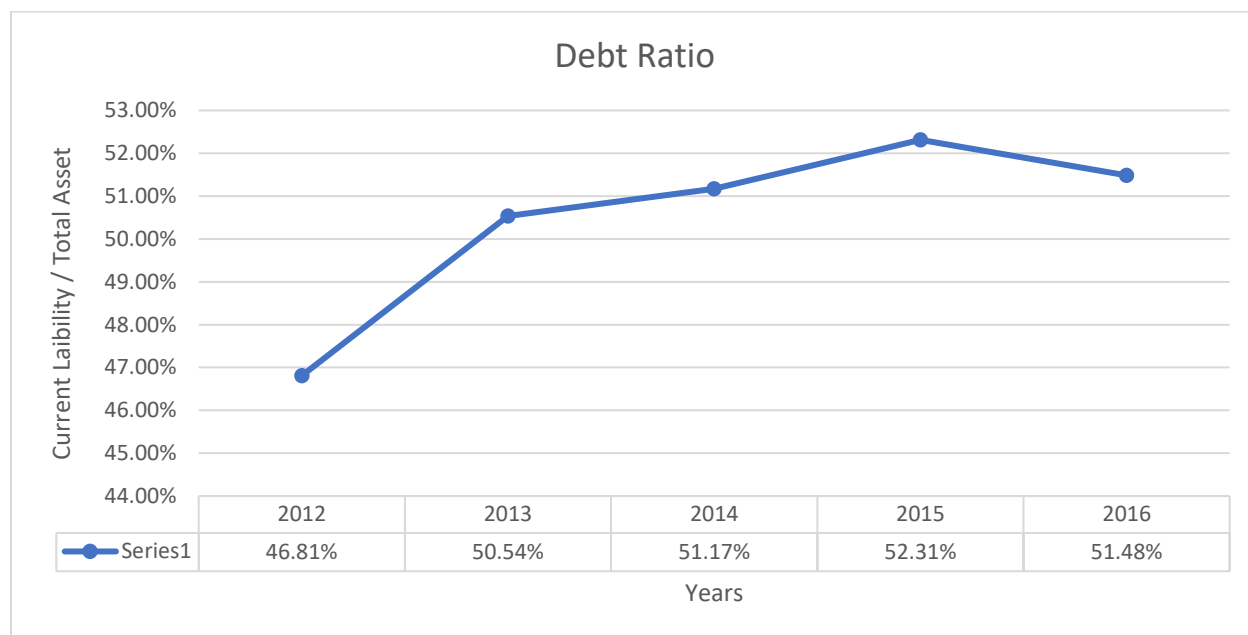
Furthermore, the level of inconsistency and contradictory results have forced many researches to conduct their analysis multiple times in order to develop a reasonable finding. There are some supporters of positive association and some advocate negative relationship between the WCM and firms FP hence, there is no analogy as far as relationship between WCM and firms' FP is concerned. Overall, a sum total of 50 firms have been selected within 2005 to 2014 therefore, this study tries its best to describe the extent of importance of WCM.

Working Capital Policy at GSK:

On the basis of previous discussion it can be referred that GSK follows an aggressive working capital policy. This company finances their working capital through short term debt, for instance bank overdraft. In an aggressive working capital policy the whole amount of current assets are financed by short-term debt. Some part of the non-current assets also will be finance by short term debt. This policy will push the finance department to be proactive in the management of working capital always, as they need to sell stocks fast and collect receivables on a timely manner. In order to, settle the short term debts on time. As GSK has higher sales or growth aggressive working capital policy suits them the most. As mentioned before if a firm follows a highly aggressive policy, it would carry a low level of current assets in relation to sales. Let's have look towards the current asset situation in terms of sales of GSK.

Financing Policy:

Current Liabilities / Total Asset

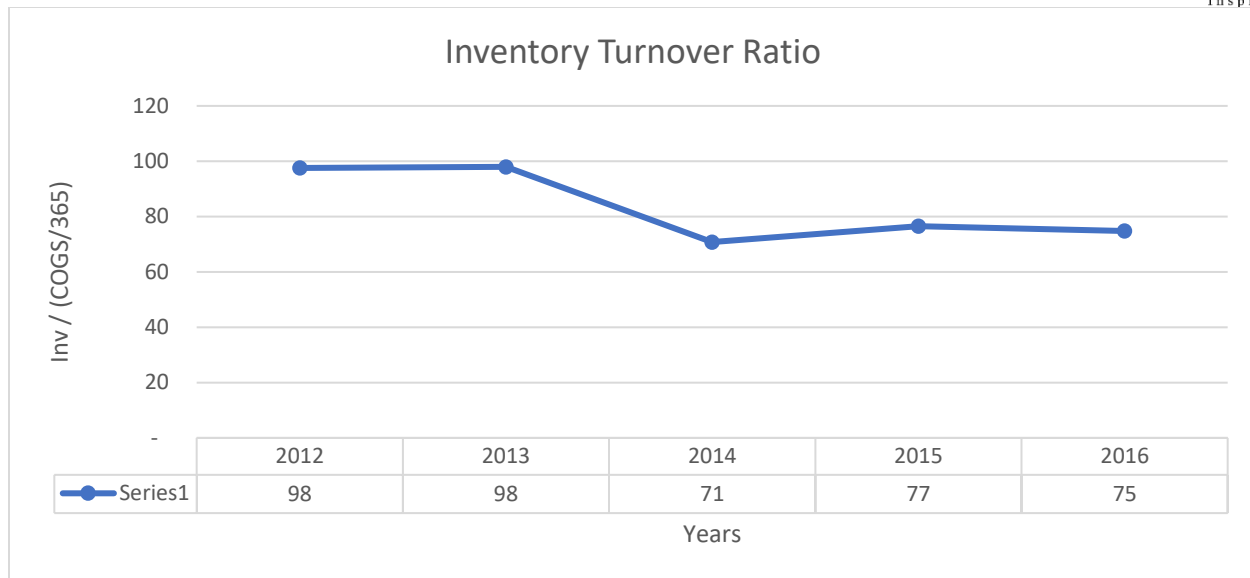


The Debt to Asset Ratio is high for GSK, meaning that most of the asset owned by GSK are financed by current liability. GSK's total asset are increasing and so the means for financing these assets are also increasing. Therefore current liability and total assets are proportional.

Inventory Management:

Inventory / (COGS / 360)

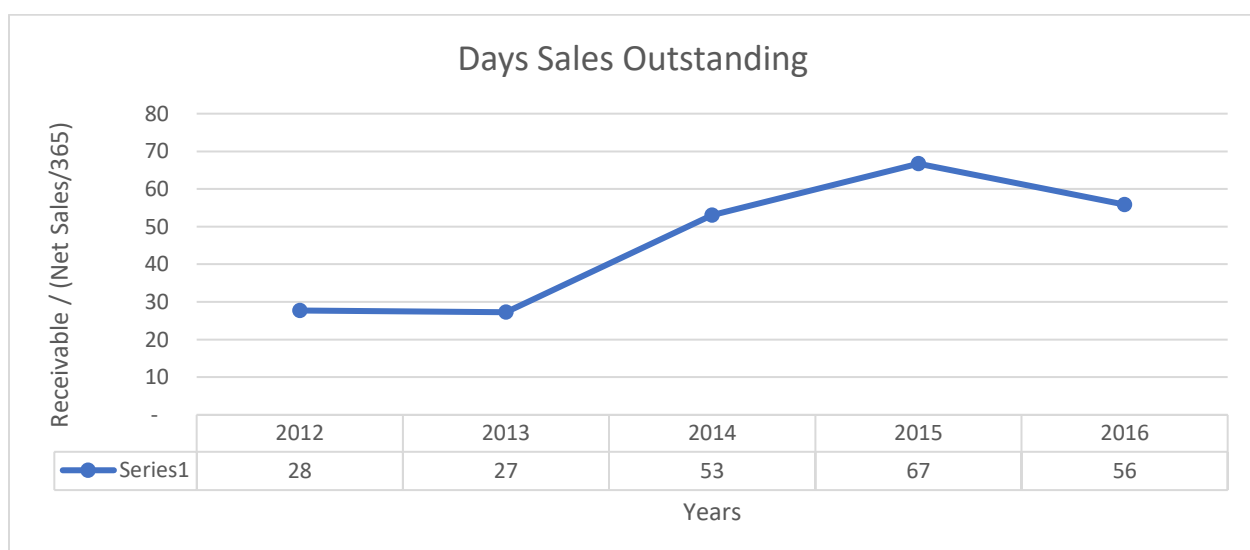
Inventory Turnover Ratio is an efficiency ratio that shows how quickly a company uses up its supply of goods over a given period of time. While in some companies the inventory turnover ratio is small such as grocery stores, compared to other departmental stores, comparatively longer inventory period means either poor sales for too much inventory.



Since 2012 the inventory turnover period has decreased in 2014 from 98 to 71. Which indicates that sales have increased or better inventory management has been achieved. Either one is a good sign for the company. Inventory turnover period should be kept as low as possible, however there should be enough inventory to capture any unpredicted sales opportunity. Inventory is a current asset and is very liquid, as soon as inventory will be converted to sales it will bring an inflow of cash. GSK's low inventory turnover period is positive sign for the company.

Days Sales Outstanding:

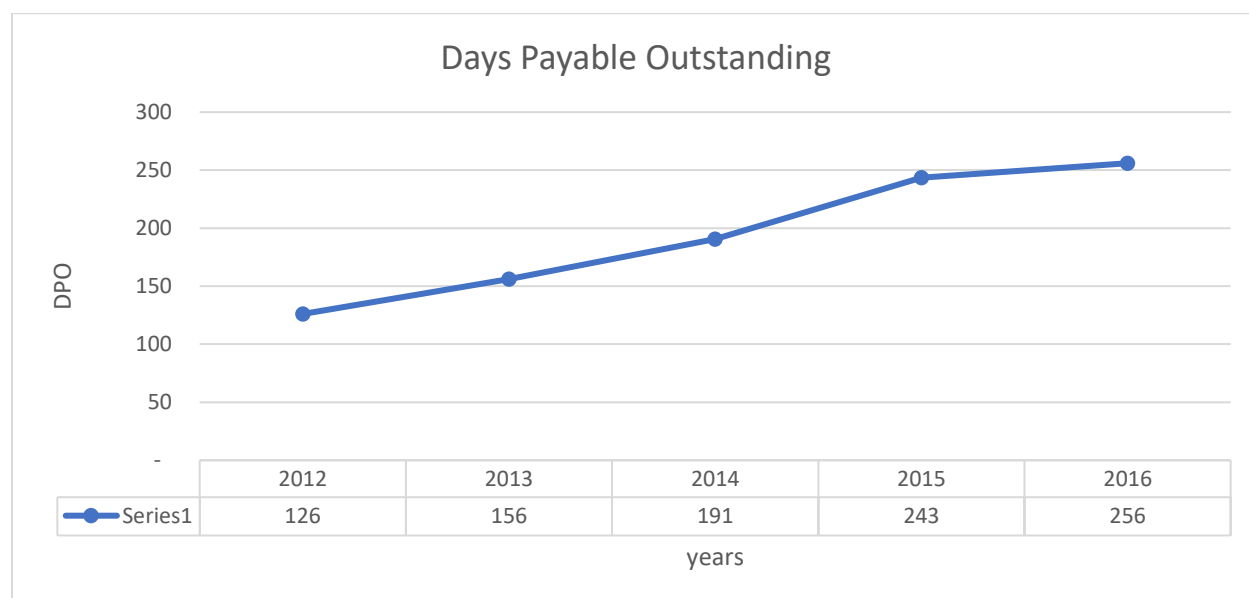
Receivable / (Net Sales / 360)



Number of Days Accounts Receivable is the length of time required to collect cash receipts. Also called Days of Sales Outstanding. Meaning how long it takes to collect cash from credit sales. This ratio should be kept as low as possible, lesser time in collecting cash mean more efficient cash flow. However GSK has been unable to maintain a low DSO, since 2012 DSO has increased from 28 to 56 days. The high DSO ratio must be given attention and should be brought down to reasonable number of days. However GSK's products are very long shelf life and it takes time to make sales, and so the high inventory turnover period.

Days Payable Outstanding:

Total payables / (COGS / 360)

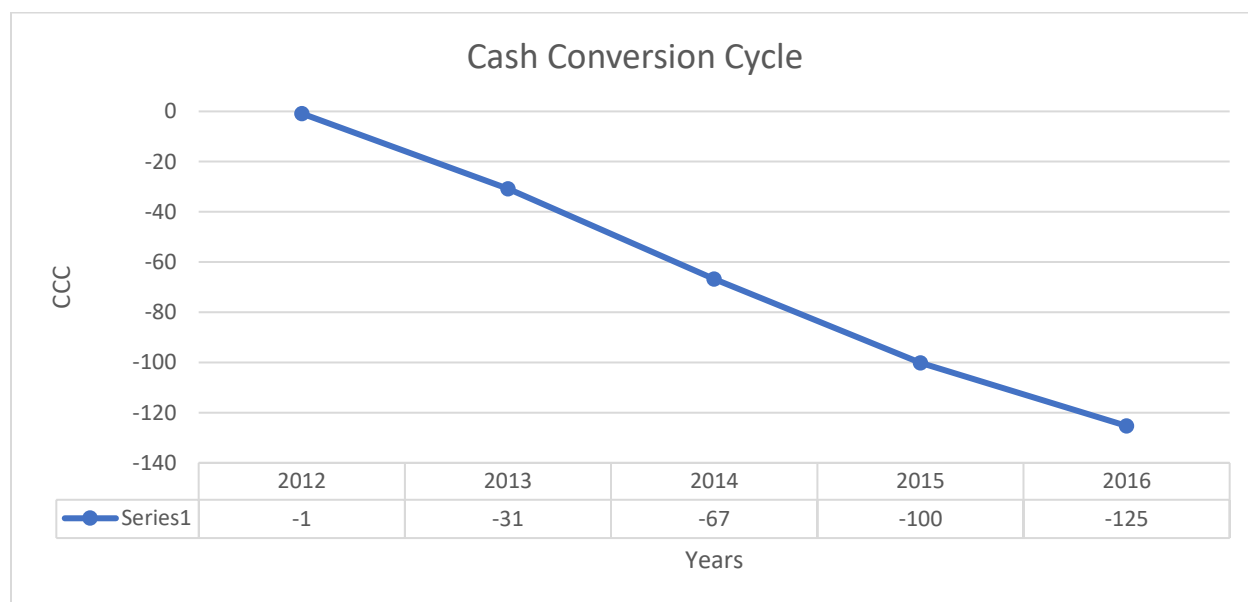


DPO is the length of payment that a firm can delay their payment for their credit purchase of raw material to the suppliers. The longer the time for DPO the company has a better opportunity to finance other things. It helps reduce cost by decreasing the need to take loans. GSK's DPO is increasing and it stands at 256 days, which means that GSK can defer their payable for 256 days. DPO is considerably higher than DSO which is very healthy for GSK. This also shows that GSK holds much power over their suppliers, for which they can defer their payment for so long.

Cash Conversion Cycle:

(Inventory Turnover Period + Days Sales Outstanding) – Days Payable Outstanding

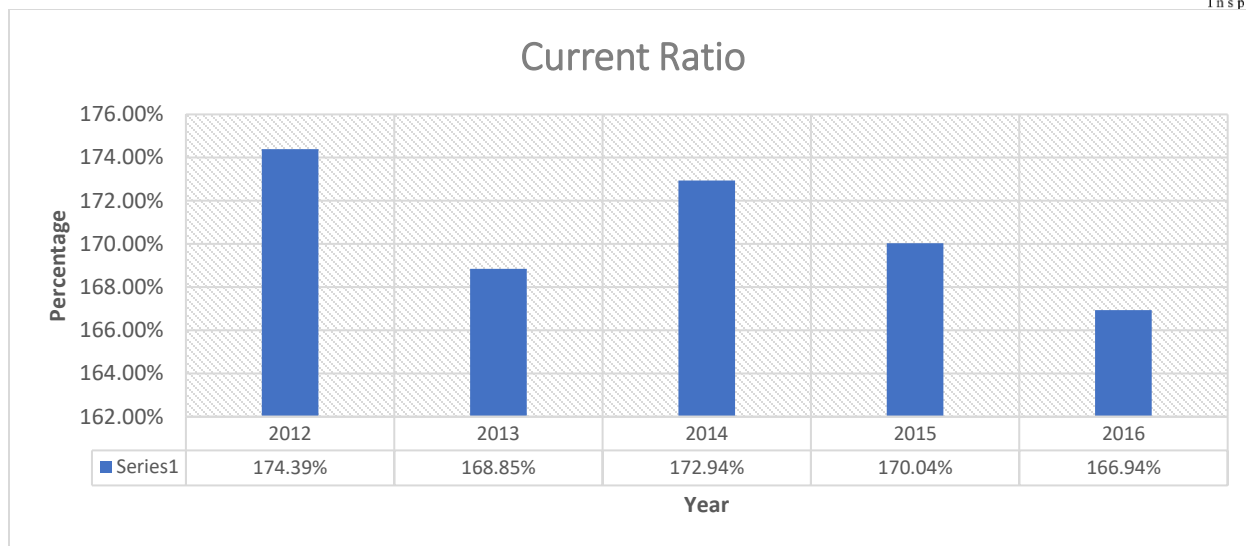
Operating Cycle is the interval between the order of inventory stock and the date when cash is collected from receivables. And CCC begins when the company pays cash to suppliers for the materials purchased and ends when cash is collected from customers for credit sales. In general, CCC mainly helps to figure out how cash is moving throughout the company in terms of duration. When CCC shortens that means the company has more cash for other usages such as investing on equipment or innovating manufacturing and selling process. On the other hand, when CCC lengthens, cash tied up in firm's operation activities where there is little chance for other investment



The negative cash conversion cycle means that GSK is getting paid by their customer way before they have to pay their suppliers. Essentially it is an interest free loan that can be utilized in other operations.

Current Ratio:

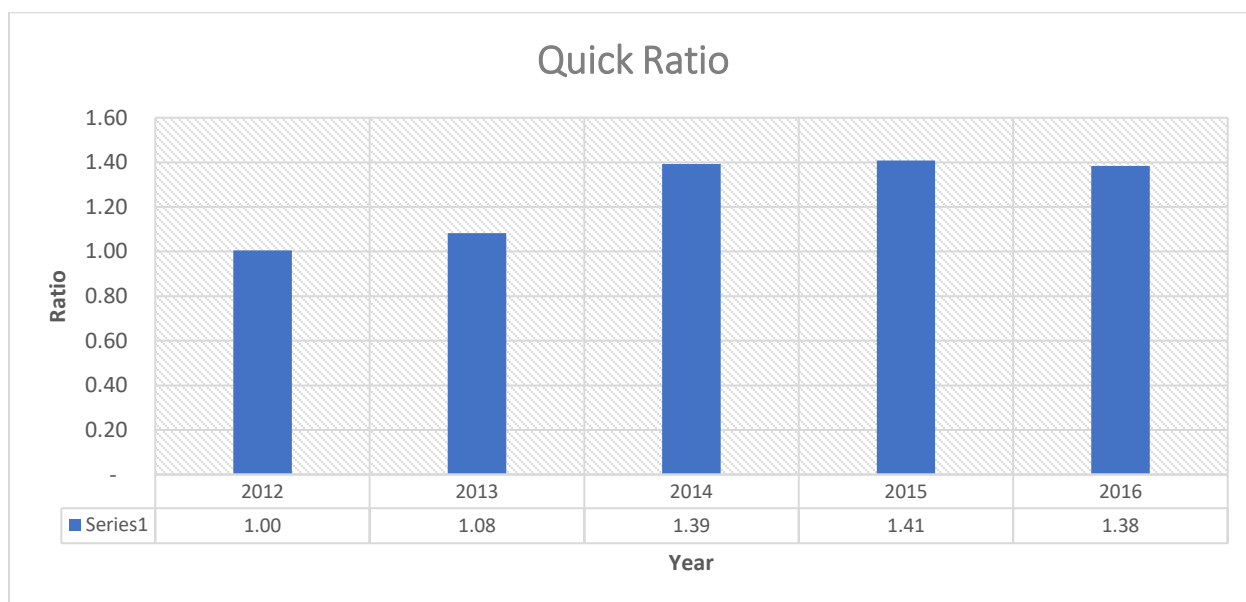
Current Asset / Current Liability



The liquidity and efficiency ratio that evaluates an organization's capability in paying off its short-term debts using the current assets is called current ratio. For GSK the current ratio is high ensuring that there are enough current asset that can be liquidated to fulfill the current liability if needs be.

Quick Ratio:

$(\text{Current Asset} - \text{Inventory}) / \text{Current Liability}$



Quick ratio measures how efficiently the company can pay off its short term financial liabilities. It is a better measure than current ratio as it deducts less liquid assets such as inventory. Again GSK was able of keep the ratio at satisfactory level.

Short Term Financing

Short Term Loan and Line of Credit:

GSK like other companies relies on the credit opportunity from the banking sector.

Trade Credit:

It is the act of obtaining funds by delaying payments. As we have seen earlier GSK DPO is 256 days. Thus they take full advantage of trade credit.

Research Design

This research is ex-post facto research. This approach evaluates the relationship between variables which have been already occurred. Here variables were used to test the relationship between the working capital management and the profitability. I have used quantitative methods as financial data collected from the database was analyzed. The time series will be used to do the research. This is because I am going to use ten year time periods and observe the behaviors of working capital components, debt and size of the firm throughout those ten years from 2012 to 2016.

Variable	Code	Description of Variable	Hypothesis	Expectation
Net Income	NI	Net income measure profitability		Dependent variable
X ₁	DOS	Days sales outstanding	Higher gap I n collecting money from customer means lower profitability	(-)
X ₂	DPO	Days payable outstanding, credit days offered by suppliers	Higher the gap the payable gap higher the profitability	(+)
X ₃	ITP	Inventory turnover period	Higher the inventory	(-)

			turnover days lower the profitability	
X ₄	CCC	Cash conversion cycle	Higher CCC higher the profitability	(+)
X ₆	Size	Size of the firm is determined by the log of sales	Greater the size of the firm greater the profitability	(+)

Findings

After conducting the report through various analysis and evaluation of influence of WCM on GSK's Profitability, many findings have been found; it includes both positive and negative findings.

The function of corporate finance department of GSK is distinguished and certain. This has sound standard operating procedures for accomplishing every task. GSK has an efficient and effective distribution strategy. GSK follows an aggressive working capital policy. It's collection of sales proceeds system and fund disbursement systems are convenient for both customer and suppliers. For effective fund collection system the collection of account receivable is excellent over the years and it takes low processing time to collect fund which is satisfactory. For efficient liquidity management the department is able to make payment to its creditor as early as possible. Hence accounts payable period is comparatively high in this organization which is 256 days in 2016.

The inventory conversion period of GSK Bangladesh is too high hitting a maximum of 75 days in the year 2016. Since it cannot convert inventory into sales quickly enough, its inventory increases resulting in decreased quick ratio. This higher inventory period ensure smooth supply of the products to the customers.

GSK has strong and good liquidity position and had no opportunity to run out from short-term financial solvency and this ability rises gradually (Current/Quick/Cash). The current ratio rate is between 1 and 1.66 which indicates a sound liquidity position of the company. GSK's most of

debts consist of creditors, accrual and bank overdraft where borrowing cost is insignificant. GSK's asset-liability management efficiency increased day by day. The company increases its sales through inventory control and was efficiently managing and selling its inventory so they tied up the fewer funds.

Conclusion

One of the best ways to judge a company's cash flow health is to take a deep look on its working capital management. The better a company can manage its working capital the lower company's need of borrowing.

Working capital management of GSK Bangladesh Ltd. is highly effective. The project is very much profitable. There is available internal source of fund due to satisfactory amount of period during the period under study. They have no difficulties in management of inventory, debtors, cash balances and current liabilities. The liquidity position of the company is also very much satisfactory due to good turnover of current assets, inventory debtors and cash balances. The company enjoys good facility of cash credit and other working capital loan though the borrowing amount of the company is very low. There is no difficulty in repayment of current liabilities out of the operating profit.

Working Capital Management of GSK has been doing very important to the company. It has lots of challenges as competition increases in the market and also has lots of scope of developing in several areas. If challenges can be faced technically by maintaining continuous support to sales teams and dealers then the credit management practice of this company can be more effective to the overall development of the company.

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