THE IMPACT OF CASH MANAGEMENT PRACTICES ON PROFITABILITY: STUDY OF SELECTED PHARMACEUTICAL COMPANIES

Abstract

Managing cash is the core activity of any business because it's only cash with which business can run smoothly. Without proper cash management many firms has facing crisis and become bankrupt. In the present study researcher take two pharmaceutical company with the objective to measure the impact of cash management practices on profitability of selected companies. Secondary data in the form of annual report is collected for the period starting from 2006-07 to 2015-16. To fulfill this objective different ratio related to cash and profitability are workout as well as regression and coefficient analysis is also done. Findings of the study reveal that except cash conversion cycle, all the other component like current ratio, cash flow margin ratio, cash coverage ratio and quick ratio has significant positive impact on profitability of the company. Whereas cash conversion cycle has negative relation with net profit ratio which is not significant.

Keywords: cash management, cash conversion cycle, profitability, net profit, liquidity.

Introduction of Cash

In the recent era of cashless transaction in India, cash get less attention than before, reason why people start doing more cashless and less cash transaction into their daily lives. Considering the cashless approach, many corporate sector is also doing the cashless transaction. The present research focus on the cash management practices of the two selected sample companies and its impact on the profitability as well. Basis on the concept of cash, it can clearly be stated that, no matter how much cashless company or corporate sector will be, they need the cash or cash equivalent for their day to day activities. Since the beginning of the commercial transaction and writing an accounts, cash has its importance. In old days, the transaction were did with barter system, gradually cash (money) were came into picture and become most useful rather key factor for financial and monitory transactions. In respect of corporate sector it can be said that without the proper cash balance corporate sector cannot be operated. For every activities whether it is day to day task or any long term investments, cash play a major role to running business smoothly.

It's rightly said that cash is the most liquid assets of any firm, it like life blood of the company. In respect of company or firm the cash stand for cash and bank balance. Merely having cash on hand without knowing the probable requirement does not providing much benefit to the companies because the requirement rather probable need of cash is important aspect of carrying cash. This would give the rise of concept called "Level of Cash". Level of cash means that much cash which can be sufficient to meet daily requirement of companies and other contingencies. How much cash is needed which called optimum cash balance is varies as per type of business because the optimum cash balance for one type of business may not be the optimum cash balance for the another type.

The process of defining the optimum cash balance for the business give the reason to formulate efficient cash management policy of the firm. With the help of good cash management system the firm can achieve its basic objective of profit maximization. No matter how much fixed assets company have, without adequate cash on hand (liquidity) company cannot meet its daily expenses. Cash like a fuel of the engine called business.

There are many business which get closed due to poor cash management policy or lack of proper cash balance. This shows the importance of the efficient cash management practices of the firm. Cash itself provide financial freedom to firm to have proper functioning of all its resources. The

three main reason why any business can hold the cash are operational, precautionary and speculative. The cash management related with the cash flow of the firm with the due reason that inflow and outflow of cash ultimately decide the level of optimum cash balance in the firm. Cash as a part of working capital needs great attention of financial manager of company as compared to the other component of working capital.

Meaning of Cash Management Practices

The cash management topic cannot be discussed in isolated manner because cash affected largely by debtors and creditors. The cash management as a significant activity in the company has its own importance. The efficiency of managing cash and cash equivalents, not only provide the liquidity to the company but also increase the profitability.

The systematic process of handling the inflow and outflow of the cash with object to attain optimum cash balance can be define as a "Cash Management". The shorter cash conversion cycle is also one of the objective of cash management. The shorter cash conversion cycle can be attain through reducing the receivable collection days, inventory outstanding days and increasing the payable outstanding day. No any readymade plan is available for formulating the cash management policy for the corporate sector, companies need to evaluate and analyze its investing pattern, its credit policy, inventory requirements, turnover period and creditors outstanding days to formulate the suitable cash management policy.

Cash flow indicate the net amount of cash and cash equivalents which is moving into and out of a business. Positive cash flow shows that a company's liquid assets are increasing which enabling it to settle debts, reinvest in its business, return money to shareholders, pay expenses and provide reserve against future financial challenges. Net cash flow derived from net income, which includes accounts receivable and other items for which payment is yet not actually been received. Cash flow helps to decide the solvency of the company and liquidity position.

Review of Related Literature

- Barot Haresh (2012) conducted a study on working capital management and profitability: Evidence from India- An empirical study. The study aims to provide empirical evidence about the effects of working capital management on profitability performance of pharmaceutical companies listed on National Stock Exchange of India for the period of 2005-06 to 2009-10.

  The paper observed a negative relationship between accounts receivables and corporate profitability and positive relationship between accounts payable and profitability. Consequently, it appears that profitability dictates how managers act in terms of managing account receivables. Thus, the finding of this paper suggest that mangers can create value for their shareholders by reducing the number of days for accounts receivables. In addition, the relationship between accounts receivables and firm's profitability suggest that less profitable firms should pursue a decrease of their accounts receivables in an attempt to reduce their cash gap in the cash negative relationship conversion cycle.

- Mr. Lalit Kumar Joshi & Mr. Sudipta Ghosh (2012) examines in their research paper the working capital performance of Cipla Ltd. during the period 2004-05 to 2008-09. Financial ratios are applied in measuring the working capital performance and statistical as well as econometric techniques are employed in order to assess the behavior of the selected ratios.

  The empirical findings reveal significant positive trend growth in most of the selected performance indicators. Further, the selected ratios show satisfactory performances during the study period. Motaals test also indicates significant improvement in liquidity performance during the said period.

  Finally, significant negative relationship exists between liquidity and profitability, which indicates that Cipla Ltd. has maintained post optimal level of liquidity (i.e. excess liquidity) during the period under study.

- Mr. N. Suresh Babu & Prof. G.V. Chalam (2014) conducted empirical investigation on relationship between the components of working capital and firm's profitability in Indian leather industry. The

main objective was to determine whether there is a significant relationship between inventory conversion period (ICP) and the profitability of the firm.

The analysis was done by the Pearson's correlation and regression analysis. They found that there is positive and insignificant relationship of inventory conversion period and profitability and also average collection period is positive relationship with leverage but statistically significant. Even though, average payment period and cash conversion cycle were significant negatively related to profitability. The result show that for overall leather industry, working capital management has significant impact on profitability of the firm.

- Daniel Mogaka Makori & Ambrose Jagongo (2013) present the research paper on the working capital management and firm profitability: Empirical Evidence from manufacturing and construction firms listed on Nairobi securities exchange, Kenya.

   This paper analyzes the effect of working capital management on firm's profitability in Kenya for the period 2003 to 2012. For this purpose, balanced panel data of five manufacturing and construction firms which are listed on the Nairobi securities exchange (NSE) is used. Pearson's correlation and ordinary least squares regression models were used to establish the relationship between working capital management and firm's profitability. The study finds a negative relationship between profitability and number of days accounts receivable and cash conversion cycle, but a positive relationship between profitability and number of days of inventory and number of days payable.

   Moreover, the financial leverage, sales growth, current ratio and firm size also have significant effects on the firm's profitability. Based on the key findings from this study they has been concluded that the management of a firm can create value for their shareholders by reducing the number of days accounts receivable. The management can also create value for their shareholders by increasing their inventories to a reasonable level.

- Kulkanya Napompech (2012) conducted a research with a primary purpose of examine the effects of working capital management on profitability. The regression analysis was used which was based on a panel sample of 255 companies listed on the stock exchange of Thailand from 2007 to 2009.

   The results revealed a negative relationship between the gross operating profits and inventor conversion period and the receivables collection period. Therefore, managers can increase the profitability of their firms by shortening the cash conversion cycle, inventory conversion period, and receivables collection period. However, they cannot increase profitability by lengthening the payables deferral period. The findings also demonstrated that industry characteristics have an impact on gross operating profits.

Research Gap

Till now, many research were done on the working capital management, liquidity and profitability but very few of them are consider the cash management practices and cash flow management of their samples. In current research, researcher try to fill this research gap and take the cash component as a prime factor to check the impact of various element of cash management on profitability of the selected sample in this research. The study also include the profitability as a dependent factor to check the relation between profitability and cash. Very few Indian literature specific on cash management practices are available reason of which the researcher make endeavor in this area by taking cash balance and cash flow of the selected sample to identify the healthiness of cash management practices of them.

Sample Profile

Two pharmaceutical companies namely Lupin and Sun pharma are selected for this study. Both the companies' basic details are dealt here with.

Lupin

Among the top five pharmaceutical companies in India, Lupin pharmaceuticals, inc. is the U.S base wholly owned subsidiary of Lupin Limited.

It has sales and marketing headquarter in Baltimor, MD, Lupin Pharmaceuticals, inc. is delivering high-quality, branded and generic medications trusted by healthcare professionals and patients across globe.

Lupin pharmaceutical has headquarter in Mumbai, India, is research focused, which programmed for developing new chemical entities. The Lupin pharmaceuticals has a state of the art R&D center in pune and is a leading global player in Anti-TB, cephalosporin (ACE-inhibitors and cholesterol reducing agents) and has a notable presence in the field of diabetes, anti-inflammatory and respiratory therapy.

"Founded on the strengths of its parent company Lupin Limited, Lupin Pharmaceuticals, Inc. intends to bring a portfolio of generics as well as branded products to the US market", said by Vinita Gupta, CEO, Lupin Pharmaceuticals, inc.

Sun Pharma

Mr. Dilip Shanghvi establish sun pharmaceuticals in 1983 in Vapi with five products to treat psychiatry ailments. Cardiology products were started in 1987 followed by gastroenterology products in 1989. Today it is largest chronic prescription company in India with market leader in psychiatry, neurology, orthopedics, cardiology, ophthalmology, gastroenterology and nephrology.

Sun pharmaceutical industries limited is an Indian multinational pharmaceutical company having headquartered in Mumbai, Maharashtra that manufactures and sells pharmaceutical formulations and active pharmaceutical ingredients (APIs) primarily in India and the US. The company acquired Ranbaxy in 2014 which made the company the largest pharma company in India, the largest Indian pharma company in US and the 5th largest specialty generic company globally.

Over 72% of sun pharma sales are from outside India, mostly in the US. The US is the single largest market, accounting for about 50% turnover in all, formulations or finished dosage forms, account for 93% of the turnover.

Company manufacturing is across 26 locations, including plats in the US, Canada, Brazil, Mexico and Israel. Company markets a large basket of generics in the US, with a strong pipeline awaiting approval from the U.S Food & Drug Administration (FDA).

Measurement of variables and abbreviation

Table-1

A table showing measurement of variables and abbreviation

Variable	Measurement	Abbreviation
Cash Conversion Cycle	DIO+DSO-DPO	CCC
Current Ratio	Current Asset/Current Liabilities	CR
Quick Ratio	Current Asset-inventory/Current Liabilities	QR
Cash coverage ratio	Cash/current liabilities	CCR
Cash flow margin ratio	Operating cash flow/Net sales	CFMR
Net Profit Margin	Net profit/ Sales*100	NP

Research Methodology

1. Objective of study

Following are the main objectives of the study.
1. To know about cash management and its various elements.
2. To measure the impact of Cash Conversion Cycle on profitability.
3. To measure the impact of Cash Coverage Ratio on Profitability.
4. To measure the impact of Cash Flow Margin Ratio on profitability.
5. To measure the impact of Current Ratio on the profitability.

2. Hypothesis

Researcher formulates the following hypothesis to check the impact of various aspects under the study.

Null Hypothesis

H0: There is no significant impact of cash conversion cycle on profitability.
H0: There is no significant impact of cash coverage ratio on profitability.
H0: There is no significant impact of cash flow margin ratio on profitability.
H0: There is no significant impact of current ratio on the profitability.

3. Period of Study

Ten year starting from 2006-07 to 2015-16 is taken for this research.

4. Scope of Study

All the pharmaceutical companies in India stand as population for the study out of which two pharmaceutical company were selected with the help of convenience sampling for this study.

5. Tools and Techniques:

In this study various ratio like current ratio, cash flow margin ratio, cash coverage ratio, cash conversion cycle and net profit ratio is used. The different statistical tool like regression, coefficient of correlation etc. are used to analyze the data and verify the hypothesis.

6. Data Collection and Analysis

As the research is based on secondary data, data in the form of annual report is collected from the official website of Lupin pharmaceutical Ltd. and Sun Pharmaceutical Ltd. and from other related websites.

7. Findings and Conclusion

It is include the findings from the research and conclusion for the overall research.

Data Analysis
Table-2

A table showing Descriptive Statistics

	Mean	Std. Deviation	N
Net Profit Ratio	25.8215	45.26498	20
Current Ratio	3.7505	2.59576	20
Cash Coverage Ratio	.9955	1.44660	20
Quick Ratio	2.7685	2.16496	20
Cash Flow Margin	14.1115	30.52160	20

Table-2 contain descriptive statistics. The NP ratio shows mean of around 25.82%, the on an average current ratio is 3.75 which is indicate healthy financial position as compared to standard ratio of 2:1. The mean of cash coverage ratio which is also known as cash to current assets ratio is 0.9955, this indicate a strong liquidity position of company to meet its current liability, it also show standard deviation of 1.45. Meanwhile, Quick ratio is also satisfactory enough with mean of 2.77 against the standard ratio of 1:1 and standard deviation is 2.16. Cash flow margin is the ratio based on the operating cash flow of the company which divided by net sales. The mean of this ratio is 14.11% with standard deviation of 30.52, which reveal that company having 14.11% operating cash with it against every 100% of net sales value.

Table-3

A table showing Model Summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.974[a]	.949	.936	11.45490	.949	70.421	4	15	.000
a. Predictors: (Constant), Cash Flow Margin, Cash Coverage, Current Ratio, Quick Ratio									

Regression analysis is the process of forming a mathematical model or function that can be used to predict or determine one variable by another variable or other variables. Regression is a statistical method for estimating the relationship between one or more independent (predictor) variables and a dependent (criterion) variable.

- **R:** R is the square root of R-squared and is the correlation between the observed and predicated values of the dependent variable.
  The coefficient (0.974) is positive and it imply that there is a strong directly proportional relationship between the cash management practices and profitability. (Avika Mungal 2014)
- **R-square:** R-square is the proportion of variance in the dependent variable (Net Profit Ratio) which can be predicted from the independent variables (predictors as mention). This value indicated that 94.9% of the variance in Net Profit Ratio can be predicted from the predictor variables. R-square is also called the coefficient of determination. (cortinhas & black 2012).
- **Adjusted R-square:** As predictors are added to the model, each predictor will explain some of the variance in the dependent variable simply due to chance. One could continue to add predictors to the model which would continue to improve the ability of the predictors to explain the dependent variable, although some of the increase in R-square would be simply due to chance variation in that particular sample.

The adjusted R-square attempts to yield a more honest value to estimate the R-squared for the population. The value of R-square was 0.949, while the value of Adjusted R-square was 0.936.

To check whether the regression model is fit for the data collected or not, validation of R^2 is necessary. As per the general rule, 0% R^2 shows none of the variability of the response data around its mean and 100% R^2 indicate that the model explains all the variability of the response data around its mean. It is general tendency that higher percentage of R^2, the better the model fits year data but it is not always be the true as R^2 may be higher as more variable added in the model.

In the present study, the value of R^2 is 0.949 which indicate that model is fits to the data collected, on the basis of which further analysis can easily be done. P value which is also referred as observed significance level is used to obtain statistical conclusion in hypothesis testing.

Table-4

A table showing Analysis of Variance[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36961.230	4	9240.307	70.421	.000[b]
	Residual	1968.221	15	131.215		
	Total	38929.450	19			
a. Dependent Variable: Net Profit Ratio						
b. Predictors: (Constant), Cash Flow Margin, Cash Coverage, Current Ratio, Quick Ratio						

- **F and Sig.:** The F-Value is 70.421. The p-value associated with this F-value is 0.000. This values are used to determine that whether the independent variables reliably predict the dependent variable or not.

The P-value is compared to the alpha level (typically 0.05) and if smaller, it can be concluded that the predictors can be used to give a good indication of performance since the significance value is less than 0.05. It can be stated that the independent variables predict the dependent variable.

Table-5

A table showing coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-15.478	5.895		-2.626	.019

Current Ratio	7.577	14.638		.434	.518	.612
Cash Coverage	-12.290	9.867		-.393	-1.245	.232
Quick Ratio	3.059	22.574		.146	.136	.894
Cash Flow Margin	1.180	.116		.795	10.127	.000
a. Dependent Variable: Net Profit Ratio						

The statement in above table regarding cash management practices were chosen from the data instrument to be tested in this regression analysis as it was most likely to affect the profitability of a business.

Dependent variable: Net Profit Ratio.

The first variable (constant) represents the constant, also referred to in textbooks as the Y intercept, the height of the regression line when it crosses the Y axis. In other words, this is the predicted value of Net Profit Ratio when all other statements are 0.

β – These are the values for the regression equation for predicting dependent variable from the independent variable. These are called unstandardized coefficient because they were measured in their natural units. As such, the coefficient cannot be compared with one another to determine which one was more influential in the model, because they can be measured on different scales.

These estimates inform one about the relationship between the independent variables an the dependent variable. These estimates indicate the amount of increase in the Net Profit Ratio that would be predicted by a 1 unit increase in the predictor.

Std. error – These are the standard errors associated with the coefficients. The standard error is used for testing whether the parameter was significantly different from 0 by dividing the parameter estimate by the standard error to obtain a T-value (column T-values and P-values).

T and Sig. – These columns provide the T-value and 2 tailed P-value used in testing the null hypothesis that the coefficient/parameter is 0. Coefficient having P-values less than alpha are statistically significant for a two tail test.

Y(predicted)= b0+b1*×1+b2*×2+b3*×3+b4*×4

Net profit ratio(predicted) = -15.478 +7.577 current ratio – 12.290 cash coverage ratio + 3.059 quick ratio + 1.180 cash flow margin.

This equation estimate the relationship about independent variable and dependent variable.

These estimates indicate the amount of increase in Net Profit Ratio that would be predicted by a 1 unit increase in the predictor.

"**Current Ratio**"- The coefficient (Parameter estimate) was 7.577. So, for every unit increase in current ratio, a 7.577 unit increase in Net Profit Ratio was predicted, holding all other variable constant.

Cash Coverage ratio- the coefficient (Parameter estimate) was -12.290. So, for every unit increase in cash coverage ratio, a -12.290 unit decrease in Net Profit Ratio was predicted, holding all other variables constant. (It does not matter at what value one holds the other statement constant, because it is a linear model).

Quick ratio- the coefficient (Parameter estimate) was 3.059. So, for every unit increase in quick ratio, a 3.059 unit increase in Net Profit Ratio was predicted, holding all other variables constant. (It does not matter at what value one holds the other statement constant, because it is a linear model).

Cash flow margin- the coefficient (parameter estimate) was 1.180. So, for every unit increase in cash flow margin, a 1.180 unit increase in Net Profit Ratio was predicted, holding all other variable

constant. (It does not matter at what value one holds the statement constant because it is linear model).

Table-6

A table showing correlations

		CR	CCR	QR	CFMR	CCC	NP
CR	Pearson Correlation	1	.885**	.990**	.627**	-.014	.731**
	Sig. (2-tailed)		.000	.000	.003	.953	.000
	N	20	20	20	20	20	20
CCR	Pearson Correlation	.885**	1	.935**	.541*	-.196	.559*
	Sig. (2-tailed)	.000		.000	.014	.409	.010
	N	20	20	20	20	20	20
QR	Pearson Correlation	.990**	.935**	1	.604**	-.086	.690**
	Sig. (2-tailed)	.000	.000		.005	.719	.001
	N	20	20	20	20	20	20
CFMR	Pearson Correlation	.627**	.541*	.604**	1	-.210	.944**
	Sig. (2-tailed)	.003	.014	.005		.373	.000
	N	20	20	20	20	20	20
CCC	Pearson Correlation	-.014	-.196	-.086	-.210	1	-.172
	Sig. (2-tailed)	.953	.409	.719	.373		.469
	N	20	20	20	20	20	20
NP	Pearson Correlation	.731**	.559*	.690**	.944**	-.172	1
	Sig. (2-tailed)	.000	.010	.001	.000	.469	
	N	20	20	20	20	20	20
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

In the above table, Positive values indicate a directly proportional relationship between the variables and a negative value indicates an inverse relationship.

All significant relationship are indicated by a * or **. A (*) correlation is significant at the 0.05 level (2-tailed). A (**) correlation is significant at the 0.01 level (2-tailed).

For the pearsons correlation, two factor namely dependent and independent are used. The Net Profit ratio is dependent factor whereas current ratio, cash coverage ratio, quick ratio, cash flow margin ratio and cash conversion cycle are independent factor.

The Net profit ratio having significant positive relation with current ratio which reveal that by increase in current ratio the profit can also be increase. Along with it, net profit ratio also shows the significant positive relation with the cash coverage ratio, quick ratio and cash flow margin, resulting increase in profit by increase in all the respective ratio.

Only the cash conversion cycle, as also mention in many literature and theories, showing the negative relation with net profit but it is not significant which indicates increase in net profit as decrease in cash conversion cycle. The cash conversion cycle is calculated with help of days of inventory outstanding, days of sales (debtors) outstanding and days of payable (creditors) outstanding. Thus in order to increase the level of profit, company needs to collect as sooner as possible from their debtors, convert their inventory into sales more speedily and paying their creditor after reasonable later period.

Cash conversion cycle is the only one variable who has the negative relation with all the other variables which make it clear that the decrease in cash conversion cycle will increase in all the other ratio and with that, overall liquidity of the selected sample company will also get increase.
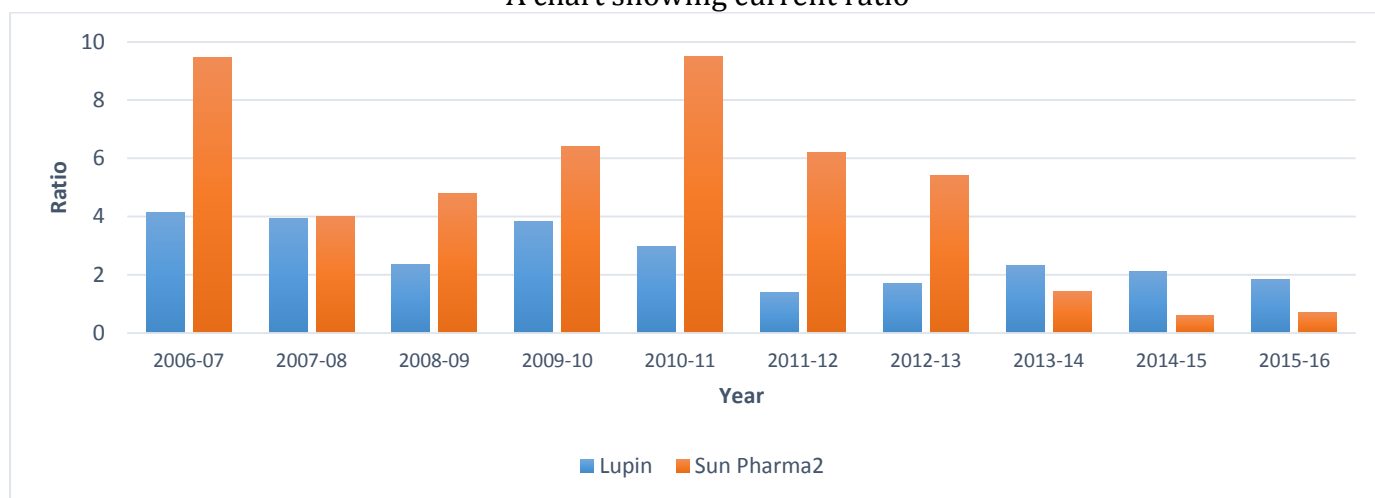
Chart-1

A chart showing cash converison cycle
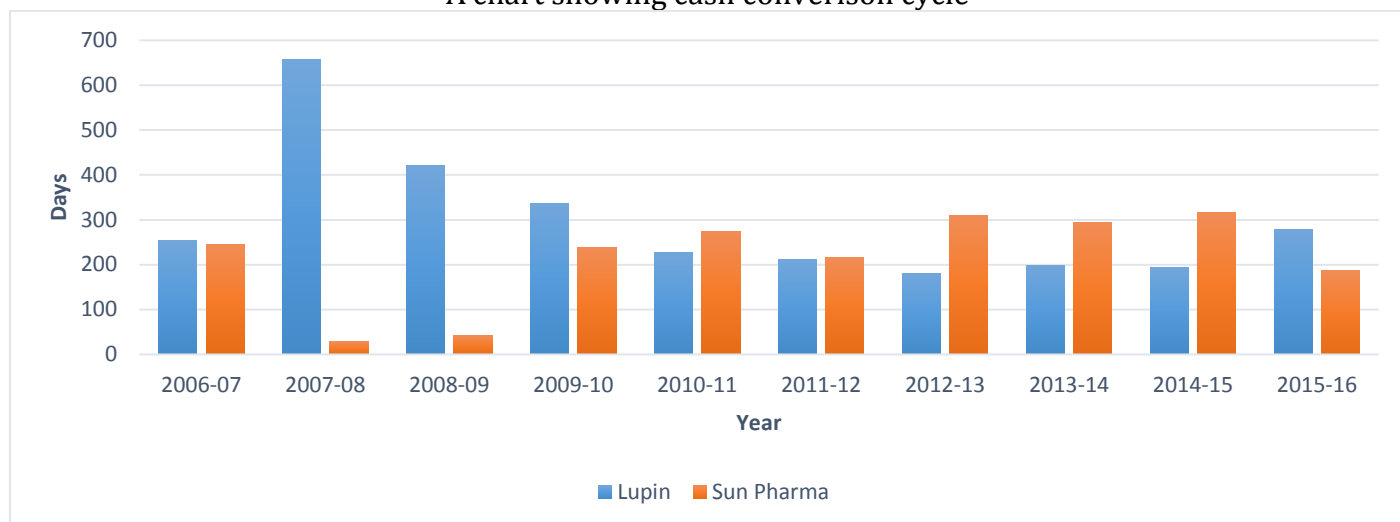
The following chart contain the cash conversion cycle of two sample on Y-aixs and years on X-axis. The cash conversion cycle of Lupin drasticly increase in 2007-08 after that it graually decrase till 2012-13. And for last three year it shows nominal fluctuation.

On other hand cash conversion cycle of sun pharma showing drametical downward trend in 2007-08 and 2008-09 as compared to 2006-07. After 2008-09 it is incrased drastically and shows fluctuating trend for remaining year.

Chart-2

A chart showing current ratio

In this chart current ratio is on Y-axis and year on X-axis are taken. The current ratio of lupin is high in first two year after which it indicate more fluctuation. As compared to lupin, sun pharma has very high current ratio in 2006-07 but it falls to almost half in next year. It again increase till 2010-11 and after that decreased and become only 0.71 in last year. So in short sun pharma having very fluctuating current ratio.

Chart-3

A chart showing Net Profit ratio
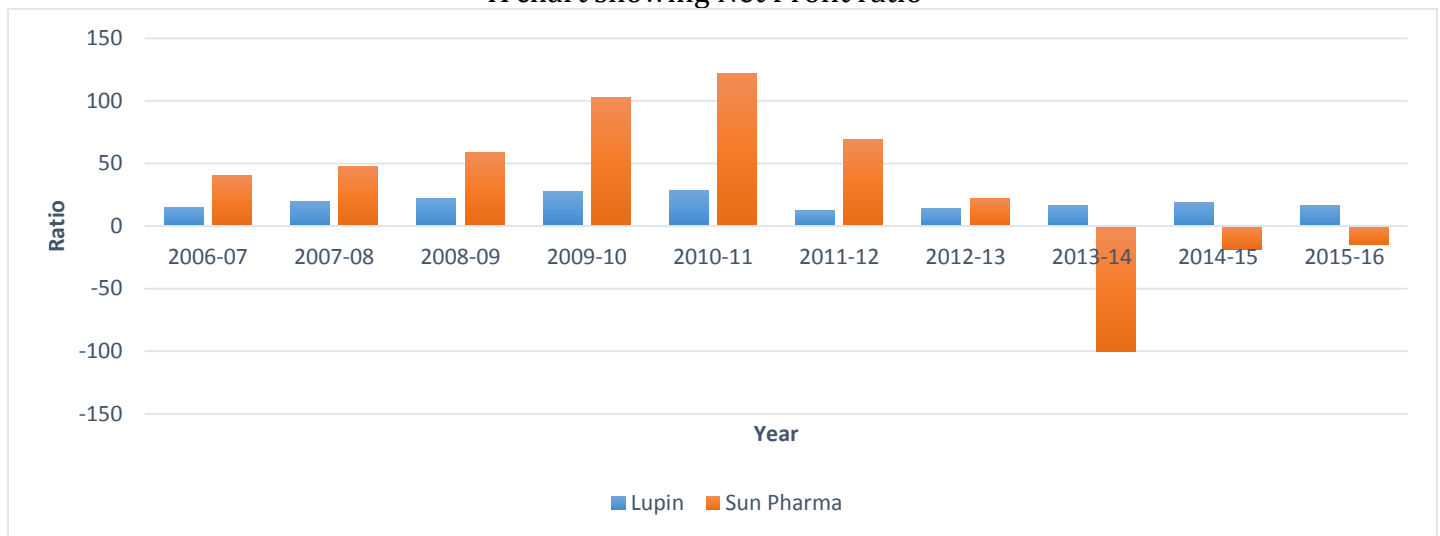
Net profit is taken on Y-axis and year is on X-axis. Net profit ratio of Lupin is having slight fluctuation trend for whole study period. Whereas Sun Pharma showing 40.35% in 2006-07 which increased upto 121.65% in 2010-11 and become high minus as 100.17% in 2013-14 which shows very critical situation of the business.

Hypothesis testing

To check the hypothesis formulated by researcher, pearsons correlation analysis is use. On the basis of significance value obtained by the correlation, it can be decide that whether the null hypothesis is rejected or not rejected.

Following table shows whether the null hypothesis is rejected or not rejected.

-	Null Hypothesis	Result
H0	There is no significant impact of cash conversion cycle on profitability.	Not rejected
H0	There is no significant impact of cash coverage ratio on profitability.	Rejected
H0	There is no significant impact of cash flow margin ratio on profitability	Rejected
H0	There is no significant impact of current ratio on the profitability.	Rejected

First hypothesis is not rejected which means that the cash conversion cycle does not significantly impact on the profitability of the firm, supporting findings by Barot Haresh (2012) but differ from Daniel Mogaka Makori & Ambaose Jagongo (2013). This indicate that though having negative relation with the profitability cash conversion cycle which resulting increase in profitability with shorter CCC, Cash conversion cycle is not critical factor to consider when taking decision to improve profitability.

The second hypothesis is get rejected which shows that there is significant impact of cash coverage ratio on profitability of selected companies. As the cash balance become higher in compare to current liability, company can efficiently use it not only to pay its debt but also enjoy good liquidity position of company which further used in profitable opportunities.

The third hypothesis is also get rejected which indicate that cash flow margin has significant impact on profitability. Since the net operating cash flow increase as compared to net sales, the profitability of selected sample can positively get growth. The more operating cash flow result in more opportunity to grab market advantage and consequently less debtors amount which ultimately give raise in profitability.

Current ratio and profitability are positively correlated and showing significant impact as well because of which fourth hypothesis is get rejected. The current ratio found with the help of current assets and current liabilities. Thus as company improve their current ratio it shows significant positive impact on the profitability of the firm.

Findings

The study conducted on two pharmaceutical companies of India for which data for the ten annual report (2006-07 to 2015-16) are collected. The researcher find that the cash management practices of the selected company is having impact on the profitability of the companies. The correlation shows that the change in the cash conversion cycle, cash flow margin ratio, cash coverage ratio, current ratio and quick ratio brings the relatively change in the Net profit ratio of the company.

With 0.731 current ratio shows significant positive relation with the net profit ratio which indicate that increase in current ratio will increase the net profit ratio. Similarly, the cash coverage ratio is having significant positive relation with net profit with 0.559 correlation which indicates that by increase in the cash availability against the current liabilities the profit of the companies also get increased.

Moreover Quick Ratio showing significant positive relation with Net Profit (0.690) because of which as the quick ratio increase it brings positive change in the profitability of the selected samples. Cash flow margin ratio which show the available operating cash flow against the net sales of the company is showing most significant positive relation with Net Profit as having 0.944 value of correlation. It makes clear that as the operating cash flow increases as compared to net sales, the net profit also get increased, it suggest to the companies that they need to focus on the operating cash flow availability against it sales made which make it liquidity position more stronger and increase in overall profitability as well.

Last variable of the correlation is cash conversion cycle which is not only negatively related with Net Profit ratio but with all the other ratio related to cash. The relation of cash conversion cycle with net profit ratio is -0.172, this is not significant, that means at a time of taking decision about profitability cash conversion cycle cannot be a critical factor. Though as having negative relation with all cash related ratio and net profit ratio, it is in the favor of selected sample to make the cash conversion cycle as short as possible to strengthen their liquidity and profitability position.

Conclusion

From the analysis of the data related to various element of cash management practices and profitability of the selected samples, it can be conclude that the Lupin has scope to increase its liquidity by managing the cash conversion cycle more efficiently and other element of cash. Sun pharma on other side shows the tremendous fluctuations in the ratio workout in this study, in this situation company need to focus on its more stable cash management strategies which ultimately helps to cultivate more profit in future.

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