A Study of Liquidity Analysis of Selected Pharmaceutical Companies of India

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Abstract:

The pharmaceutical industry in India produces a range of bulk drugs, which are the key acting ingredients with medicinal properties that form the basic raw materials for formulations. Bulk drugs account for roughly one-fifth of the industry output while formulations account for the rest. India also has the expertise for active pharmaceutical ingredients (APIs) and sees significant opportunities for value-creation. India is the source of 60,000 generic brands across 60 therapeutic categories and manufactures more than 500 APIs. According to the Confederation of Indian Industry, India's API industry is ranked the third largest in the world, and the country contributes approximately 57 percent of APIs to the pre-qualified list of the WHO.

Keywords: *Liquidity Analysis; Pharmaceutical Industry*

1. Introduction

India's pharmaceutical industry is among the leading global producers of cost-effective generic medicines and vaccines, supplying 20 percent of the total global demand by volume and 62 percent of the global demand for vaccines. India ranks third worldwide for pharmaceutical production by volume and 14th by value. The country has an established domestic pharmaceutical industry, with a strong network of 3,000 drug companies and about 10,500 manufacturing units.

Out of these, more than 2,000 units are World Health Organization (WHO) good manufacturing practice (GMP) approved; 253 are European Directorate of Quality Medicines (EDQM)-approved plants; 1,105 have Europe's Certificate of Suitability (CEPs); more than 950 match therapeutic goods administration (TGA) guidelines; and 584 sites are approved by the US Food and Drug Administration (US FDA).

2. Liquidity Management

Liquidity management is very important for every organization that means to pay current obligations on business, the payment obligations include operating and financial expenses that are short term but maturing long term debt. For the present study researcher has attempted to study the core two liquidity ratio i.e. current ratio and quick ratio. Leading function of liquidity are as follows

Forecasting cash flows: Successful day-to-day operations require the firm to be able to pay its bills promptly. This is largely a matter of matching cash inflows against outflows. The firm must be able to forecast the sources and timing of inflows from customers and use them to pay creditors and suppliers.

❖**Raising funds:** The firm receives financing from a variety of sources. At different times some sources will be more desirable than others. A possible source may not; at a given point of time have sufficient funds available to meet the firm's needs. So the financial manager must identify the amount of funds available from each source and the periods when they will be needed.

❖**Managing the flow of internal funds:** A large firm has a number of different bank accounts for various operating divisions or for special purposes. The money that flows among these internal accounts should be carefully monitored.

3. Methodology

Objective of the Study: Present article is based on the Study of Liquidity of Selected Companies of Pharmaceutical Industry

Period of Study: The study period is to be converted 5 years; from 2015-16 to 2019-20.

No. of sample: Researcher has selected 3 Pharmaceutical companies of India for the present study.

Tools & Techniques: For the present study Current Ratio and Quick Ratio has considered as an accounting tools and F-Test - ONE WAY ANOVA is used as tools of Statistics.

[i] Current Ratio: The current ratio is the most frequently used one. It offers a general view of the company liquidity and is a starting point of its analysis. It defines to what degree current assets cover short-term liabilities. It determines then potential ability of an enterprise to pay all its current liabilities through liquidizing possessed resources of current assets.

Year	COMPANY			Total
	Cipla Ltd	Dr Reddy	Sun Pharma	
2015-16	2.19	2.10	0.60	4.89
2016-17	2.48	2.02	0.58	5.08
2017-18	2.91	1.91	0.76	5.58
2018-19	4.00	2.90	0.84	7.74
2019-20	3.45	2.49	1.07	7.01
TOTAL	15.03	11.42	03.85	30.3
AVG	3.006	2.284	0.77	
Source: www.moneycontrol.com				

Table – 1: Current ratio of selected pharmaceutical companies of India for the period from 2015-16 to 2019-20

It is evident from the above table that highest Average Current Ratio achieved in the year 2018-19 due to Current Ratio of Cipla Ltd showing 4.00 in that year comparing to remaining research unit while higher average Current Ratio 3.006 is showing by CIPLA Ltd during research period.

Graphical Analysis

CHART 1
Current Ratio of selected Pharmaceutical companies of India from the period 2015-16 to 2019-20
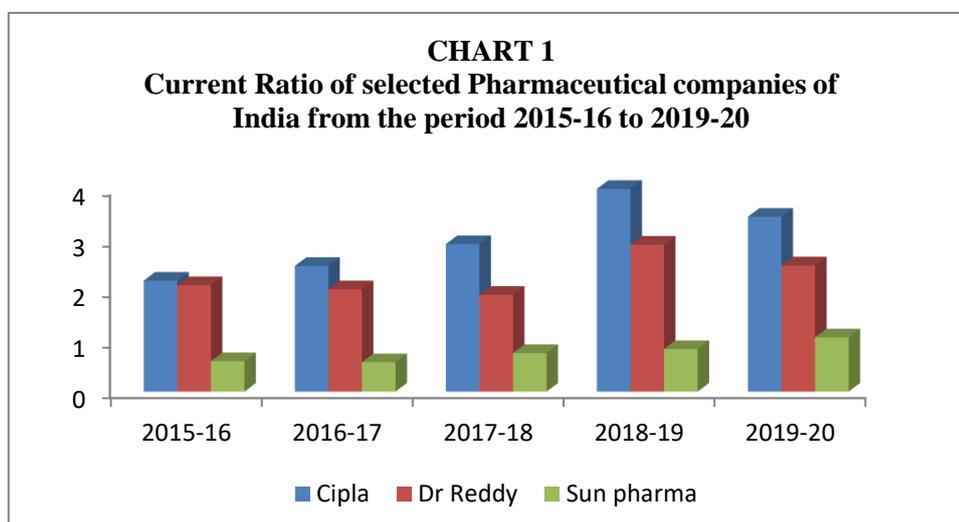
From the above chart it is evident that Cipla Ltd is having highest ratio during research period which is followed by Dr Reddy and Sun Pharma respectively throughout research period;.

Statistical Analysis

Table 2 :"F"-Test One Way ANOVA for Current Ratio of selected Pharmaceutical Companies of India for the period from 2015-16 to 2019-20					
H_0: There is No Significant Different between Current Ratio of Selected Pharmaceutical Companies of India for the period from 2015-16 to 2019-20					
H_1: There is Significant Different between Current Ratio of Selected Pharmaceutical Companies of India for the period from 2015-16 to 2019-20					
Source of Variation	**Sum of Square**	**Degree of Freedom**	**Mean Sum of Square**	**F_c**	**F_t**
B.S.S.	13.02196	02	6.51098	26.37	3.88
W.S.S.	2.96224	12	0.246853		
T.S.S.	15.9842	14			

From the "F" test one-way ANOVA Table as calculated above it shows Calculated value of Fc = 26.37 while tabular value of Ft = 3.88 which show that calculated value Fc is greater than tabular value Ft, Fc > Ft Hence Null Hypothesis is rejected and Alternative Hypothesis is accepted that there is significant Difference in current ratio for selected pharmaceutical companies of India during research period.

(ii) Quick Ratio: Quick ratio is also known as liquid ratio or acid test ratio. Current ratio provides a rough idea of the liquidity of a firm so subsequently a second testing device was developed named as acid test ratio or quick ratio. The least liquid element of current assets is inventory. To obtain the liquidity measure on the basis of a group of assets which are easier to sell, we separate them from the current ratio. The quick ratio shows to what degree short-term liabilities are covered with the most liquid current assets.
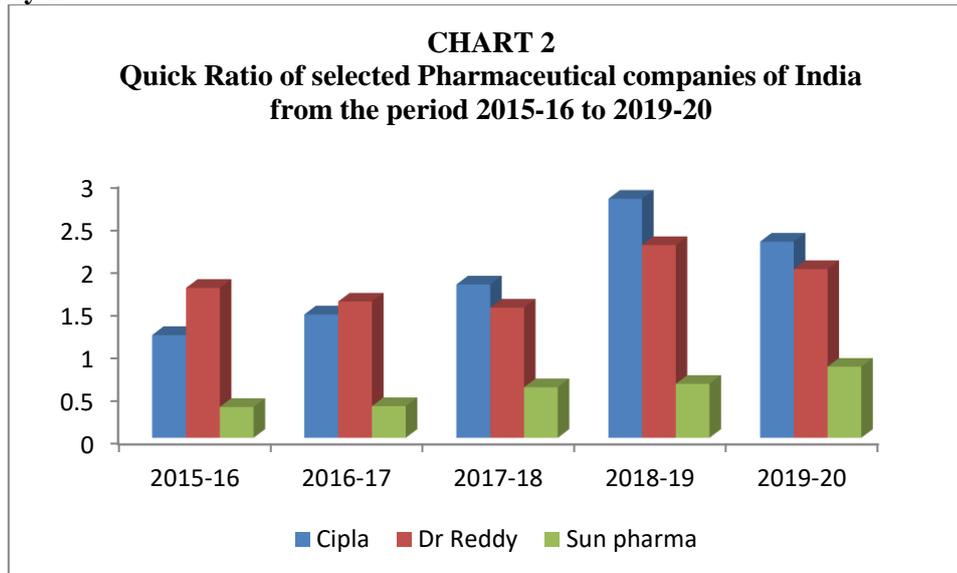
Table 3 : Quick ratio of selected pharmaceutical companies of India for the period from 2015-16 to 2019-20				
Year	**COMPANY**			
	Cipla Ltd	**Dr Reddy**	**Sun Pharma**	**Total**
2015-16	1.20	1.75	0.36	3.31
2016-17	1.44	1.59	0.37	3.4
2017-18	1.79	1.52	0.59	3.9
2018-19	2.79	2.25	0.63	5.67
2019-20	2.29	1.97	0.83	5.09
TOTAL	9.51	9.08	2.78	21.37
AVG	1.902	1.816	0.556	
Source: www.moneycontrol.com				

It is evident from the above table that highest Average Quick Ratio achieved in the year 2018-19 due to Current Ratio of Cipla Ltd showing 2.79 in that year comparing to remaining research unit while higher average Current Ratio 1.902 is also showing by CIPLA Ltd during research period.

Graphical Analysis

CHART 2
Quick Ratio of selected Pharmaceutical companies of India from the period 2015-16 to 2019-20

From the above chart it is evident that Dr Reddy is having highest ratio during first three year of research period while for remaining two year it is Cipla Ltd.

Statistical Analysis

Table 4 "F"-Test One Way ANOVA for Quick Ratio of selected Pharmaceutical Companies of India for the period from 2015-16 to 2019-20					
H_0: There is No Significant Different between Quick Ratio of Selected Pharmaceutical Companies of India for the period from 2015-16 to 2019-20					
H_1: There is Significant Different between Quick Ratio of Selected Pharmaceutical Companies of India for the period from 2015-16 to 2019-20					
Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
B.S.S.	5.6778	02	2.8389	15.71	3.88
W.S.S.	2.1677	12	0.1806		
T.S.S.	7.8456	14			

From the "F" test one-way ANOVA Table as calculated above it shows Calculated value of Fc = 15.71 while tabular value of Ft = 3.88 which show that calculated value Fc is greater than tabular value Ft, Fc > Ft Hence Null Hypothesis is rejected and Alternative Hypothesis is accepted that there is significant Difference in quick ratio for selected Pharmaceutical companies of India during research period.

4. Conclusion

From the above analysis it shows that there is significant difference in both the liquidity ratio for selected Pharmaceutical companies of India during research period.

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