

# To Measure the Liquidity Of Selected Private Sector Pharmaceutical Companies in India

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**Abstract:** The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value, and it accounts for 20 per cent in the volume terms and 1.4 per cent in value terms of the Global Pharmaceutical Industry as per a report by Equity Master. The pharmaceutical industry plays a significant role in the development of the country. It is necessary that it functions in an efficient manner and generates sufficient surpluses. The reward of capital is profit that could be earned through its efficient utilization of its resources. Objectives of the study, to measure the liquidity of selected private sector pharmaceutical Companies in India. Methodology of the study, the pharmaceutical industry has been considered for the present study, considering its importance as the backbone of economic growth in any country.

In India, there are 330 organized pharmaceutical industries are functioning, out of which 320 are under Private sector, 10 industries are under Public sector, Among these, only private sector pharmaceutical industry have been taken into account for the study. Findings of the study, the banker's rule of thumb standard of liquidity for a business is "two to one" (2:1). It is generally expected that current assets should be two times the current liabilities.To sum up, among the selected ten study units, the mean value is high in Dr Reddy's Laboratories Limited, Cipla Limited, Divi's Laboratories Limited and GlaxoSmithKline Pharma Limited and co-efficient of variation is very high in Wockhardt Limited, GlaxoSmithKline Pharma Limited and Dr Reddy's Laboratories Limited during the study period.Suggested this study, 2.While analyzing the quick ratio, the performance of the Divi's Laboratories Limited is not well. he company should increase the liquidity position to improve liquidity.

**Key words:** pharma, financial performance, curent assets, etc.,

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## INTRODUCTION

The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value, and it accounts for 20 per cent in the volume terms and 1.4 per cent in value terms of the Global Pharmaceutical Industry as per a report by Equity Master. India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume. Of late, consolidation has become an important characteristic of the Indian pharmaceutical market as the industry is highly fragmented.India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the antiretroviral drugs used globally to combat AIDS (Acquired Immuno Deficiency Syndrome) are supplied by Indian pharmaceutical firms.The UN-backed Medicines Patent Pool has signed six sub-licences with Aurobindo, Cipla, Desano, Emcure, Hetero Labs and Laurus Labs, allowing them to make generic anti-AIDS medicine TenofovirAlafenamide (TAF) for 112 developing countries.The number of purely Indian pharma companies is fairly low. Indian pharma industry is mainly operated as well as controlled by dominant foreign companies having subsidiaries in India due to availability of cheap labor in India at low cost. In 2002, over 20,000 registered drug manufacturers in India sold \$9 billion worth of formulations and bulk drugs. 85% of these formulations were sold in India while over 60% of the bulk drugs were exported, mostly to the United States and Russia. Most of the players in the market are small-to-medium enterprises; 250 of the largest companies control 70% of the Indian market.

Thanks to the 1970 Patent Act, multinationals represent [when?] only 35% of the market, down from 70% thirty years ago. Most pharma companies operating in India, even the multinationals, employ Indians almost exclusively from the lowest ranks to high level management.[citation needed] Homegrown pharmaceuticals, like many other businesses in India, are often a mix of public and private enterprise.

In terms of the global market, India currently holds a modest 1–2% share, but it has been growing at approximately 10% per year. India gained its foothold on the global scene with its innovatively engineered generic drugs and active pharmaceutical ingredients (API), and it is now seeking to become a major player in outsourced clinical research as well as contract manufacturing and research. There are 74 US FDA-approved manufacturing facilities in India, more than in any other country outside the U.S, and in 2005, almost 20% of all Abbreviated New Drug Applications (ANDA) to the FDA are expected to be filed by Indian companies. Growth in other fields notwithstanding, generics are still a large part of the picture. London research company Global Insight estimates that India's share of the global generics market will have risen from 4% to 33% by 2007. The Indian pharmaceutical industry has become the third largest producer in the world and is poised to grow into an industry of \$20 billion in 2015 from the current turnover of \$12 billion.

## STATEMENT OF THE PROBLEM

Finance plays a major role in all business activity because business needs more funds for its operation. A mere look at the financial statements will not reveal some crucial information. To bring out the hidden information, financial statements over a period are to be studied. Pharmaceutical industry is one of the leading industries in India. In India, pharmaceutical industries are operating in Public sector and Private sector. The pharmaceutical industry plays a significant role in the development of the country. It is necessary that it functions in an efficient manner and generates sufficient surpluses. The reward of capital is profit that could be earned through its efficient utilization of its resources. The success of any business undertaking depends upon its efficient performance.

The Indian pharma industry, which is expected to grow over 15 per cent per annum between 2015 and 2020, will outperform the global pharma industry, which is set to grow at an annual rate of 5 per cent between the same period!. The market is expected to grow to US\$ 55 billion by 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size, as stated by Mr Arun Singh, Indian Ambassador to the US. Branded generics dominate the pharmaceuticals market, constituting nearly 80 per cent of the market share (in terms of revenues). The sector is expected to generate 58,000 additional job opportunities by the year 2025. India's pharmaceutical exports stood at US\$ 16.4 billion in 2016-17 and are expected to grow by 30 per cent over the next three years to reach US\$ 20 billion by 2020, according to the Pharmaceuticals Export Promotion Council of India (PHARMEXCIL). The private sector pharmaceutical industry in India plays a vital role in the production of drugs. Private sector pharmaceutical industries are purposely selected for the study to evaluate its performance through various financial aspects

### OBJECTIVES OF THE STUDY.

To measure the liquidity of selected private sector pharmaceutical Companies in India.

To give suitable suggestion to improve the liquidity position of pharmaceutical companies in India.

## METHODOLOGY

A scientific approach to the research methodology is very much essential to evaluate the research problem systematically. The pharmaceutical industry has been purposefully selected for the present study due to its valuable contributions in the progress of the economical conditions of the country. The present study is fully focused on the secondary data which are collected from the different sources.

Apart from the published annual reports of the respective units, other relevant information pertaining to the pharmaceutical industry have been collected from various sources like Industry survey reports, Journal, Magazine, Newspaper and other related websites like, [www.pharmaindustry.com](http://www.pharmaindustry.com), [www.indianinfoline.com](http://www.indianinfoline.com), [www.druginfo.com](http://www.druginfo.com), [www.tn.gov.in/policynotes](http://www.tn.gov.in/policynotes), [www.indianindustry.com](http://www.indianindustry.com) and [www.indiatimes.com](http://www.indiatimes.com)

## SAMPLE DESIGN

The pharmaceutical industry has been considered for the present study, considering its importance as the backbone of economic growth in any country. In India, there are 330 organized pharmaceutical industries are functioning, out of which 320 are under Private sector, 10 industries are under Public sector, Among these, only private sector pharmaceutical industry have been taken into account for the study.

The database of CMIE has made compilation of Top 26 pharmaceutical industry based on Net Sales & Net profit of which only 10 pharmaceutical industries were found in both comparison of Net Sales & Net profit. Because of certain constraints and limitations in the forms of non-availability of financial data during the entire span of the study period or Take over's, non-functioning of pharmaceutical industries in a particular year, for the present study only ten pharmaceutical industries have been selected.

The sample study units which have been chosen for the present study are as follows:

### SAMPLE DESIGN OF THE PHARMACEUTICAL INDUSTRY

S. No.	Company Name	Net Sales as on 31st March 2016(Rs. cr)	Net Profit as on 31st March 2016 (Rs. cr)
1	Dr Reddys Labs	9,728.00	1,932.80
2	Cipla	9,380.29	1,388.34
3	Lupin	8,939.38	2,324.22
4	Aurobindo Pharm	7,110.71	1,172.09
5	Cadila Health	3,675.70	498.6
6	Ipca Labs	3,234.82	477.37
7	Torrent Pharma	2,766.23	546.42
8	GlaxoSmithKline	2,546.15	501.88
9	Divis Labs	2,513.97	791.72
10	Wockhardt	2,471.18	622.7

### ANALYSIS OF LIQUIDITY POSITION

The liquidity of a business firm is measured by its ability to satisfy its short-term obligations as they come due. Liquidity refers to the solvency of the firm's overall financial position. The two basic measures of liquidity solvency mean the ability of the firm to meet obligations as they become due. The balance sheet which shows the financial position as on a given data is useful in judging the solvency of a business. The term "Solvency" can be used in two ways. It is firstly the ability of a business concern to pay all its debts, short -term as well as long-term and secondly the ability of a business to generate the necessary cash to meet out the current obligations.

Liquidity ratios play a key role in the analysis of the short- term financial position of a business. This type of ratio normally indicates the ability of the business firms to meet the maturing of current debts, the efficiency of the management in utilizing the working capital and the progress attained in the current financial position.

### ANALYSIS OF SHORT-TERM LIQUIDITY

Analysis of short term liquidity position can be made by the computation of certain ratios which are to comment upon the short term paying capacity of a concern or the firm's ability to meet its current obligations. Short -term liquidity position of the company is analyzed with the help of the following ratios:

#### CURRENT RATIO OR WORKING CAPITAL RATIO

Current ratio is a test of ability of the firm to meet its short- term commitments in appropriate time. It is the ratio obtained by applying the current assets against the current liabilities. It is also called Working Capital ratio, which is most widely used of all analytical devices based on the balance sheet.

In computation of current ratio, the following formula is used:

Current assets means those assets convertible or expected to be converted into cash within a year and current liabilities are those liabilities to be paid off within the same time.

Current assets normally include cash in hand and cash at bank, marketable securities or readily realizable investments, bills receivable, book debts (excluding bad debts and provisions), inventories and prepaid expenses.

<b>TABLE - 1</b>											
<b>CURRENT RATIO</b>											
<b>Ratio in Times</b>											
<b>Year / Company</b>	<b>APL</b>	<b>CHL</b>	<b>CL</b>	<b>DL L</b>	<b>DRL L</b>	<b>GPL</b>	<b>ILL</b>	<b>LL</b>	<b>TPL</b>	<b>WL</b>	<b>Pooling Ave</b>
2005-06	1.50	1.14	2.06	1.50	1.85	1.00	1.48	1.38	1.48	3.49	1.69
2006-07	1.85	1.00	2.42	1.68	2.21	0.97	1.40	1.68	1.78	3.17	1.82
2007-08	2.04	1.03	2.17	2.14	3.05	0.96	1.48	1.53	1.78	2.16	1.83
2008-09	1.78	1.19	1.89	2.65	3.15	1.46	1.51	1.24	1.81	1.27	1.80
2009-10	1.54	1.35	2.36	2.80	2.07	2.49	1.59	1.26	1.91	1.28	1.87
2010-11	1.28	1.45	2.71	2.35	1.44	2.99	1.62	1.38	1.56	1.02	1.78
2011-12	1.14	1.14	2.67	2.11	1.44	2.96	1.72	1.36	1.41	0.63	1.66
2012-13	1.20	0.95	2.27	2.18	1.53	3.08	1.85	1.56	1.62	0.57	1.68
2013-14	1.36	0.97	1.81	2.34	1.69	3.10	1.75	2.23	1.88	0.60	1.77
2014-15	1.49	1.05	1.66	2.33	1.78	2.67	1.59	2.66	1.80	0.70	1.77
2003-04	1.69	1.06	1.87	1.34	3.73	1.25	1.52	1.34	1.35	1.65	1.68
2004-05	1.54	1.07	1.89	1.53	2.49	1.09	1.51	1.10	1.24	2.69	1.62
<b>Mean</b>	<b>1.53</b>	<b>1.12</b>	<b>2.15</b>	<b>2.08</b>	<b>2.20</b>	<b>2.00</b>	<b>1.59</b>	<b>1.56</b>	<b>1.64</b>	<b>1.60</b>	<b>1.75</b>
<b>S.D.</b>	<b>0.27</b>	<b>0.15</b>	<b>0.34</b>	<b>0.47</b>	<b>0.75</b>	<b>0.94</b>	<b>0.13</b>	<b>0.45</b>	<b>0.22</b>	<b>1.04</b>	<b>0.09</b>
<b>C.V. (%)</b>	<b>17.64</b>	<b>13.56</b>	<b>15.96</b>	<b>22.50</b>	<b>34.17</b>	<b>47.13</b>	<b>8.26</b>	<b>28.87</b>	<b>13.72</b>	<b>64.91</b>	<b>4.94</b>
<b>CAGR (%)</b>	<b>-1.25</b>	<b>-0.09</b>	<b>-1.18</b>	<b>5.69</b>	<b>-7.40</b>	<b>7.88</b>	<b>0.45</b>	<b>7.10</b>	<b>2.92</b>	<b>-8.22</b>	<b>0.52</b>

*Source : Compiled from annual reports*

Current liabilities such as, outstanding or accrued expenses, Sundry creditors, bills payable, bank overdraft, provision for taxation etc.,

The banker's rule of thumb standard of liquidity for a business is "two to one" (2:1). It is generally expected that current assets should be two times the current liabilities. To sum up, among the selected ten study units, the mean value is high in Dr Reddy's Laboratories Limited, Cipla Limited, Divi's Laboratories Limited and GlaxoSmithKline Pharma Limited and co-efficient of variation is very high in Wockhardt Limited, GlaxoSmithKline Pharma Limited and Dr Reddy's Laboratories Limited during the study period.

### LIQUID RATIO OR QUICK RATIO

Quick ratio establishes a relationship between liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid. It is also known as "Acid-Test Ratio". Liquid ratio may be expressed as:

Liquid or quick assets are current assets minus inventories and prepaid expenses. Inventories are considered to be less liquid because normally it requires some time for realizing into cash and their value also has a tendency to fluctuate. In the same manner, liquid liabilities are current liabilities minus bank over draft.

Rule of thumb for liquid ratio is „one to one“ (1:1). It is considered to be in a fairly good current financial position. In other words quick assets should not be less than quick liabilities.

<b>TABLE -2</b>											
<b>LIQUID RATIO</b>											
											<b>Ratio in Times</b>
<b>Year / Company</b>	<b>APL</b>	<b>CHL</b>	<b>CL</b>	<b>DLL</b>	<b>DRLL</b>	<b>GPL</b>	<b>ILL</b>	<b>LL</b>	<b>TPL</b>	<b>WL</b>	<b>Pooling Ave</b>
2005-06	1.42	0.33	0.30	0.09	0.36	1.54	0.32	0.31	0.55	1.33	0.65
2006-07	1.71	0.09	0.37	0.16	0.19	1.56	0.35	0.36	0.98	2.65	0.84
2007-08	2.59	0.48	0.38	0.52	0.52	1.66	0.30	0.10	0.94	1.82	0.93
2008-09	2.60	0.70	0.36	0.38	1.05	0.60	0.31	0.32	0.61	2.50	0.94
2009-10	3.83	0.69	0.32	0.35	1.68	0.61	0.73	0.26	2.47	1.22	1.22
2010-11	2.55	0.06	0.19	0.22	1.88	0.19	0.98	0.27	2.21	1.29	0.98
2011-12	1.77	0.53	0.13	0.22	1.82	0.20	0.88	0.48	2.31	1.36	0.97
2012-13	2.06	0.13	0.13	0.11	1.73	0.21	0.83	0.45	3.10	1.60	1.03
2013-14	2.07	0.23	0.17	0.16	0.76	0.43	0.91	0.51	2.89	1.71	0.98
2014-15	2.11	0.31	0.21	0.20	0.95	0.65	0.78	0.56	2.95	1.76	1.05
2015-16	1.14	0.34	0.23	0.36	0.40	1.55	0.13	0.32	0.51	0.33	0.53
2016-17	1.56	0.50	0.30	0.23	0.74	1.74	0.14	0.28	0.65	0.49	0.66
<b>Mean</b>	<b>2.12</b>	<b>0.37</b>	<b>0.26</b>	<b>0.25</b>	<b>1.01</b>	<b>0.91</b>	<b>0.55</b>	<b>0.35</b>	<b>1.68</b>	<b>1.50</b>	<b>0.90</b>
<b>S.D.</b>	<b>0.72</b>	<b>0.22</b>	<b>0.09</b>	<b>0.13</b>	<b>0.62</b>	<b>0.64</b>	<b>0.32</b>	<b>0.13</b>	<b>1.06</b>	<b>0.68</b>	<b>0.21</b>
<b>C.V. (%)</b>	<b>33.78</b>	<b>59.63</b>	<b>36.04</b>	<b>50.96</b>	<b>61.65</b>	<b>69.94</b>	<b>58.30</b>	<b>36.81</b>	<b>62.86</b>	<b>45.36</b>	<b>22.95</b>
<b>CAGR (%)</b>	<b>6.35</b>	<b>-0.92</b>	<b>-0.91</b>	<b>-5.71</b>	<b>9.04</b>	<b>-8.32</b>	<b>19.62</b>	<b>5.76</b>	<b>19.19</b>	<b>18.22</b>	<b>7.08</b>
<b>Source : Compiled from annual reports</b>											

It is also inferred from the analysis that, among the selected ten study units the mean value of Aurobindo Pharma Limited, Torrent Pharmaceuticals Limited and Wockhardt Limited and co-efficient of GlaxoSmithKline Pharma Limited, Torrent Pharmaceuticals Limited and Dr Reddy's Laboratories Limited are very high during the entire study period.

<b>TABLE 3</b>											
<b>TO CURRELT LIABILITIES RATIO</b>											
											<b>Ratio in Times</b>
<b>Year / Company</b>	<b>APL</b>	<b>CHL</b>	<b>CL</b>	<b>DLL</b>	<b>DRLL</b>	<b>GPL</b>	<b>ILL</b>	<b>LL</b>	<b>TPL</b>	<b>WL</b>	<b>Pooling Ave</b>
2005-06	0.15	0.16	0.07	0.03	0.42	2.31	0.03	0.04	0.56	0.39	0.42
2006-07	0.01	0.07	0.05	0.05	0.04	2.30	0.04	0.05	0.91	0.22	0.37
2007-08	0.17	0.05	0.04	0.06	0.22	2.39	0.03	0.01	0.55	0.47	0.40
2008-09	0.54	0.06	0.06	0.06	0.32	1.25	0.05	0.39	0.41	0.56	0.37
2009-10	1.44	0.05	0.14	0.14	0.70	0.24	0.03	0.84	0.07	1.64	0.53
2010-11	0.48	0.03	0.05	0.08	1.43	0.02	0.03	1.34	0.38	2.35	0.62
2011-12	0.06	0.01	0.01	0.06	1.02	0.03	0.04	0.06	0.06	2.82	0.42
2012-13	0.18	0.11	0.01	0.11	1.59	0.05	0.05	0.06	0.10	0.81	0.31
2013-14	0.21	0.14	0.02	0.09	1.64	0.04	0.06	0.11	0.25	1.76	0.43
2014-15	0.27	0.17	0.04	0.12	1.69	0.03	0.09	0.16	0.38	1.56	0.45
2015-16	0.11	0.11	0.08	0.07	0.28	2.30	0.12	0.02	0.32	0.11	0.35
2016-17	0.02	0.14	0.05	0.04	0.46	2.44	0.03	0.02	0.64	0.08	0.39
<b>Mean</b>	<b>0.30</b>	<b>0.09</b>	<b>0.05</b>	<b>0.08</b>	<b>0.82</b>	<b>1.12</b>	<b>0.05</b>	<b>0.26</b>	<b>0.39</b>	<b>1.07</b>	<b>0.42</b>
<b>S.D.</b>	<b>0.40</b>	<b>0.05</b>	<b>0.04</b>	<b>0.03</b>	<b>0.62</b>	<b>1.14</b>	<b>0.03</b>	<b>0.42</b>	<b>0.25</b>	<b>0.93</b>	<b>0.09</b>
<b>C.V. (%)</b>	<b>130.81</b>	<b>58.92</b>	<b>66.89</b>	<b>42.37</b>	<b>75.92</b>	<b>101.96</b>	<b>56.54</b>	<b>160.96</b>	<b>65.76</b>	<b>87.30</b>	<b>21.61</b>
<b>CAGR (%)</b>	<b>9.39</b>	<b>4.45</b>	<b>-6.70</b>	<b>5.59</b>	<b>19.69</b>	<b>-35.21</b>	<b>-2.84</b>	<b>23.11</b>	<b>1.73</b>	<b>30.37</b>	<b>2.54</b>

**Source : Compiled from annual reports**

In the case Wockhardt Limited the mean value of this ratio is 1.07 and co-efficient of variation is 87.30 per cent. During the period 2011-12, it shows much higher ratio than the mean value and it indicates the sufficient position of cash. In the year 2015-06 ratio was very low indicating deterioration in actual liquidity position. The co-efficient of variation indicates slight deviation in the study period.

To sum up, the cash to current liabilities ratio of the selected ten units have been analyzed. Among the selected companies the mean value of 102 GlaxoSmithKline Pharma limited and co-efficient of Lupin limited show high due to sufficient cash position.

## SUGGESTIONS

In view of the analysis drawn from the study, the following suggestions are made.

1. Dr Reddy's Laboratories Limited performance is well in its current ratio, among the twelve elected pharmaceutical companies. So necessary steps should be taken to improve the current ratio by other companies.
2. While analyzing the quick ratio, the performance of the Divi's Laboratories Limited is not well. he company should increase the liquidity position to improve liquidity.
3. In Cash to current liabilities of the selected pharmaceutical companies, the liquidity position of the IPCA Laboratories Limited and Cipla Limited is not good followed by GlaxoSmithKline Pharma Limited. In order to increase the cash position, the study units should implement proper policy to maintain short-term solvency.

## CONCLUSION

The financial health plays a significant role in the successful management of a company. The analysis practically reveals that gross profit ratio, operating ratio, return on equity capital, and earnings per share, have significant effect on the net profit ratio of the selected pharmaceutical companies during the study period. However, profitability of the selected pharmaceutical companies in India during the study period is satisfactory. During the period of study there were a few ups and downs in the profitability but it did not affect the operations of the company to a great extent. If the Pharmaceutical Industry has to perform well, it has to invest more capital and has to do more sales, only then it will improve its performance level.

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