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# LIQUIDITY AND PROFITABILITY OF INDIA'S TOP FIVE PHARMACEUTICAL COMPANIES: A COMPARATIVE ANALYSIS

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## *Abstract*

*Every firm relies heavily on liquidity. The liquidity ratio is used to determine a company's ability to meet short-term requirements. While the profitability ratio was employed to determine the profitability and efficiency of a company's resource usage. It is important to note that a company's liquidity should be properly balanced because excess liquidity, on the one hand, indicates the accumulation of idle funds that do not generate profits for the company, while a lack of liquidity may reduce the firm's goodwill, credit standing, and lead to the forced liquidation of the firm's assets. As a result, the corporation must maintain a balance of liquidity and profitability. This research examines the relationship between liquidity and profitability for ten pharmaceutical businesses during a five-year period, from 2014-15 to 2015-20. The study's major goal was to investigate if corporations could make money by keeping liquidity or if they were willing to sacrifice liquidity in order to make more money. The findings show that among the five pharmaceutical companies chosen, the profitability ratio is concerned with the relative profitability and efficiency of a business's resource usage.*

***Keywords:*** *Profitability, ratio analysis, Pharmaceutical Companies*

## INTRODUCTION

India is the world's largest supplier of generic pharmaceuticals. The Indian pharmaceutical business supplies more than half of global demand for vaccines, 40% of generic demand in the United States, and 25% of all pharmaceuticals in the United Kingdom. In the global medicines industry, India holds a significant place. The country also possesses a large pool of scientists and engineers who can help propel the business forward to new heights. Indian pharmaceutical companies currently supply over 80% of the antiretroviral medications needed to combat AIDS (Acquired Immune Deficiency Syndrome) around the world. Businesses must increase and do in this current stage of globalisation and economic liberalisation if they want to ensure their continued existence in the current and competitive business climate.

Working capital is the difference between the amount of money spent on raw materials and the amount of money received from completed goods sales. The way you manage working capital can have a big impact on your company's liquidity and profitability. The primary goal of any business is to maximise profits. Maintaining the firm's liquidity, on the other hand, is a critical goal. The issue is that increasing earnings at the expense of liquidity might cause major issues for the company.

The Indian Pharmaceutical Industry is now one of India's most advanced science-based industries, having broad skills in the difficult field of medication manufacturing and technology. The Indian pharmaceutical sector has been instrumental in encouraging and sustaining development in the critical field of medicine.

In 2017, the pharmaceutical industry was worth US$ 33 billion. The pharmaceutical business in the country is predicted to grow at a CAGR of 22.4 percent from 2015 to 20 to reach US$ 55 billion. In FY18, India's pharmaceutical exports totaled US$ 17.27 billion, while in FY19, they totaled US$ 19.14 billion. Bulk pharmaceuticals, intermediates, drug formulations, biologicals, Ayush & herbal items, and surgical products are all examples of pharmaceutical exports.

The government's Department of Pharmaceuticals' Vision of Pharma 2020 intends to make India a significant location for end-to-end drug discovery. Between April 2000 and June 2019, the sector received a total of US$ 16.25 billion in FDI. The Ministry of Health and Family Welfare has been allocated Rs 62,599 crore (US$ 8.96 billion) in Budget 2019-20. The health insurance scheme Ayushman Bharat- Pradhan Mantri Jan Arogya Yojana has been granted Rs 6,400 crore (US$ 915 million) (AB-PMJAY). According to the Union Budget 2019-20, a total

of Rs 1,900 crore (US$ 0.27 billion) has been made aside for research, with Rs 62,659 crore (US$ 8.96 billion) given to the Ministry of Health and Family Welfare.
India operates more than 250 US Food and Drug Administration (FDA) and UK Medicine and Healthcare Products Regulatory Agency (MHRA) certified factories, supplying economical and low-cost generic medications to consumers all over the world. Furthermore, the market for active pharmaceutical ingredients (APIs) is expected to reach $6 billion by the end of 2020.
The majority of APIs used in generic medicine manufacture are obtained from India, which also supplies over 30% of generic APIs used in the United States. However, for the development of their medication formulations, Indian manufacturers rely largely on APIs from China, with over 70% of their APIs coming from China, the world's largest producer and exporter of APIs by volume.
The existing reliance of Indian pharmaceutical companies on Chinese APIs poses a severe threat to national health security, forcing the Indian government to establish a taskforce to examine the indigenous API sector. Several key representatives from the pharmaceutical industry and the NITI Aayog (an Indian government policy think tank) suggested that encouraging approvals of pharmaceutical infrastructure developments, clearance from the environment ministry, and tax exemptions and subsidies for the development and promotion of pharmaceutical industry hubs could all help the market.

## LITERATURE REVIEW

In the research Liquidity and Profitability Trade-off: A Study of Indian Pharmaceutical Companies from 2012 to 2016, Panigrahi,Rual, and Gijare (2018). The working capital management or liquidity was measured in this study utilising Motal's comprehensive test of liquidity. Using Spearman's Rank Coefficient of Correlation, an attempt has also been made to investigate the relationship between liquidity and profitability of the sample companies in this research. The liquidity ratio of Biocon was found to be the best among the five companies studied in this report. For improved execution, the other companies in the study need to improve their liquidity situation. It was also discovered that there was a negative working capital situation. Currently, a number of businesses are operating with negative working capital in order to earn higher returns on capital and profitability.

Bhunia (2010) attempted to look at the Financial Performance of the Indian Pharmaceutical Industry: A Case Study from 1997-98 to 2008-09. Various accounting ratios were utilised to examine the financial performance in terms of liquidity, solvency, profitability, and financial efficiency in these studies. Statistical methods such as linear multiple regression analysis and hypothesis testing – t test were employed in these studies. With the analysis of the financial performance of a select pharmaceutical firm, it can be determined that the liquidity position of KAPL and RDPL was strong, indicating the companies' capacity to meet short-term obligations on time. Long-term solvency in the case of KAPL and RDPL in all years, indicating that enterprises depended more on external funds for long-term borrowings, resulting in a reduced level of creditor protection.

Dr. Ashokkumar Panigrahi is an Indian physician (2013), In the research of Indian Cement Companies' Liquidity Management - A Comparative Study. As a result of this research, they discovered that small businesses have greater liquidity than large businesses, and that the growth rates of current ratios, quick ratios, and working capital to current assets for all businesses are negative, indicating a weak liquidity position. The working capital management or liquidity was measured in this study utilising Motal's comprehensive test of liquidity. In this article, a comparative assessment of the liquidity positions of five top Indian cement businesses was conducted in order to determine the companies' liquidity positions. The research spans ten years, from 2000-2001 to 2009-2010. The liquidity situation of Shree Cements is stronger than that of other corporations, according to Motaal's Ultimate Rank Test. According to this research report, current liabilities rise at a much faster rate than current assets, so organisations should make sure that current assets and liabilities expand at the same rate. According to the findings, none of these companies should maintain an optimal current and liquid ratio.

J.Niresh (2012) investigated the trade-off between liquidity and profitability: a case study of Sri Lankan manufacturing firms. These findings are based on a review of 31 publicly traded manufacturing companies in Sri Lanka from 2007 to 2011. The study used correlation analysis and descriptive statistics, and the results show that there is no significant association between liquidity and profitability among Sri Lanka's listed manufacturing enterprises. It demonstrates that the liquidity ratios of publicly traded manufacturing companies are in line with industry standards. Manufacturing companies in Sri Lanka should focus on increasing profits while maintaining liquidity.

In the research of Liquidity and Profitability Analysis on Romanian Listed Companies, Vintila and Nenu (2016). The study focused on companies that were listed on the Bucharest Stock Exchange. Data was collected over a ten-year period, from 2005 to 2014. A graphical examination of the trend of current liquidity and leverage ratios was performed in the study. According to the findings, there was a statistically significant association between the variables studied and a negative correlation between liquidity and company financial performance.

## SCOPE OF THE STUDY

This study spans a ten-year period, from 2011-12 to 2019-2020. The analysis was conducted utilising secondary data obtained from the organisations' annual filings and the Bombay Stock Exchange's website. In addition, journals and periodicals were studied in order to establish the examination technique. The top five pharmaceutical companies were chosen for the study based on their market capitalization and financial information that was publicly available. The material gathered was altered, grouped, and organised according to the study's requirements. The goal of the research is to determine the efficiency and effectiveness of management in each working capital sector. Simply said, the distinction between profitability and liquidity is the availability of profits vs. cash. Profit is the primary metric used to judge a company's stability, and it is of primary concern to shareholders. While profit is the most crucial factor, this does not always imply that the company's activities are long-term. Furthermore, a prosperous firm may lack liquidity since the majority of its funds are invested in Projects; on the other hand, a company with a lot of cash or liquidity may be unprofitable because it has not efficiently utilised extra funds.
Thus, the success depends on better management of both profitability and liquidity.

## NEED AND IMPORTANCE OF THE STUDY

The manner in which current assets and current liabilities are managed affects the successor failure of any organisation, according to this study. Working capital management must be efficient and effective in order for a company to be successful. Through efficient and effective management of current assets and current liabilities, the business concern must maximise the utilisation of available resources. In this light, it is necessary to successfully manage a company's working capital. A review of the literature was conducted in order to determine how pharmaceutical businesses manage their working capital. This research was carried out in order to find an answer to this question. Manufacturing and selling costs, staff salaries, and payments to creditors, tax authorities, and interest on borrowed funds are all included.

## RESEARCH METHODOLOGY

In this work, I investigated the liquidity situation of the selected organisations across the study period and correlated it with their profitability to see how these two factors, liquidity and profitability, interacted. For the specific object, I utilise ratio analysis, such as current ratio, quick ratio, finished goods turnover, debtor turnover, and profitability analysis. PAT on Net Worth, PAT on Capital Employed, and PAT on Total Assets are all examples of ratios.

## DATA AND SAMPLE SIZE

For the study, a sample size of five Indian pharmaceutical companies listed on the BSE was carefully chosen based on market capitalization. The data for the study period 2010-11 to 2019-2020 was gathered from secondary sources, such as the company's annual reports. In order to achieve our objectives, we chose five significant organisations based on total assets and whose financial information is available for the whole study period.

## OBJECTIVE

1.To Study and evaluate the liquidity position of companies.
2. To Study and evaluate the profitability of companies.

## ANALYSIS

**1. Sun Pharmaceutical Industries Limited(Ratio Analysis)**
**1. Liquidity Ratio**

| Year | Current Ratio(Times) | Quick Ratio(Times) | Finished Goods Turnover(Times) | Debtors Turnover(Times) |
|---|---|---|---|---|
| 31-03-11 | 5.487 | 4.373 | 16.017 | 3.608 |

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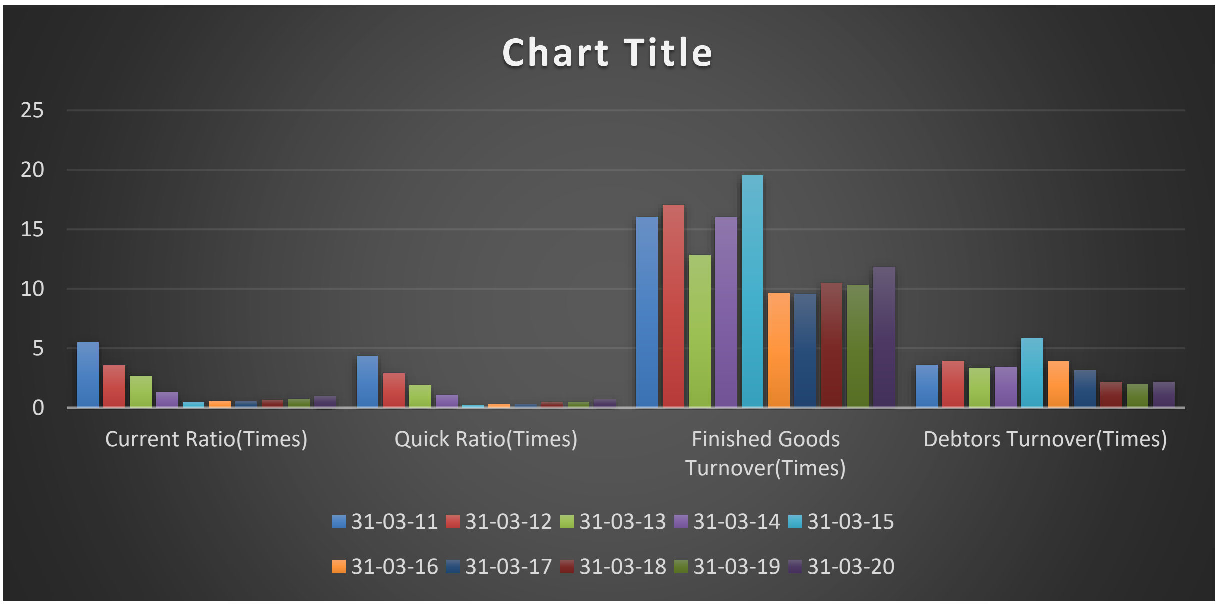
| | | | | |
|---|---|---|---|---|
| 31-03-12 | 3.559 | 2.891 | 17.033 | 3.925 |
| 31-03-13 | 2.668 | 1.889 | 12.856 | 3.34 |
| 31-03-14 | 1.286 | 1.058 | 16.005 | 3.434 |
| 31-03-15 | 0.442 | 0.235 | 19.532 | 5.814 |
| 31-03-16 | 0.536 | 0.276 | 9.627 | 3.899 |
| 31-03-17 | 0.515 | 0.285 | 9.56 | 3.148 |
| 31-03-18 | 0.672 | 0.472 | 10.475 | 2.184 |
| 31-03-19 | 0.727 | 0.499 | 10.342 | 1.946 |
| 31-03-20 | 0.961 | 0.708 | 11.83 | 2.187 |

Chart for Ratios




**Ideal Current Ratio: 1:1**
**Ideal Quick Ratio : 2:1**
**Here, Sun Pharmaceutical should not maintain ideal Current and Quick Ratio from last five years.**
**2. Profitability Ratio**

| Year | PAT on Net Worth (%) | PAT on Capital Employed (%) | PAT on Total Assets (%) |
|---|---|---|---|
| 31-03-11 | 22.3 | 22.2 | 19.4 |
| 31-03-12 | 23.3 | 23.2 | 20.1 |
| 31-03-13 | 6.6 | 6.6 | 5.5 |
| 31-03-14 | -37.2 | -32.1 | -23.4 |
| 31-03-15 | -9.8 | -7.5 | -5.5 |
| 31-03-16 | -4.9 | -3.8 | -2.9 |
| 31-03-17 | -0.1 | -0.1 | -0.1 |
| 31-03-18 | 1.4 | 1.1 | 0.8 |
| 31-03-19 | 3.6 | 2.8 | 2.1 |
| 31-03-20 | 13.6 | 10.7 | 8 |

**Here, Profit of Sun Pharmaceutical Ltd. Decrease in the year of 17-18 and 18-19 but consequently rise its profit in the year of 19-20**

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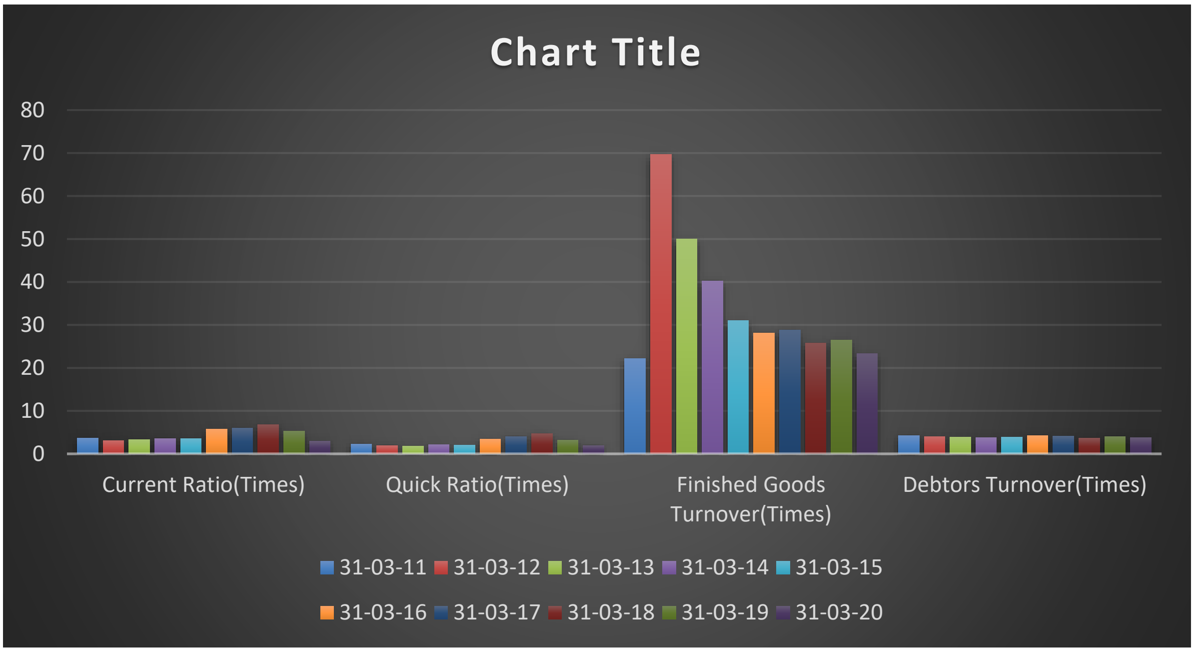
**2. Divi'S Laboratory Limited (Ratio Analysis)**
**1. Liquidity Ratio**

| Year | Current Ratio(Times) | Quick Ratio(Times) | Finished Goods Turnover(Times) | Debtors Turnover(Times) |
|---|---|---|---|---|
| 31-03-11 | 3.711 | 2.318 | 22.174 | 4.22 |
| 31-03-12 | 3.115 | 1.862 | 69.699 | 3.998 |
| 31-03-13 | 3.32 | 1.776 | 50.031 | 3.913 |
| 31-03-14 | 3.589 | 2.103 | 40.274 | 3.749 |
| 31-03-15 | 3.53 | 2.039 | 31.049 | 3.854 |
| 31-03-16 | 5.743 | 3.443 | 28.151 | 4.193 |
| 31-03-17 | 6.02 | 4.053 | 28.803 | 4.127 |
| 31-03-18 | 6.781 | 4.718 | 25.748 | 3.626 |
| 31-03-19 | 5.297 | 3.23 | 26.506 | 4.071 |
| 31-03-20 | 2.96 | 1.976 | 23.348 | 3.757 |

**Chart for Ratios**




**Ideal Current Ratio: 1:1**
**Ideal Quick Ratio : 2:1**
**Here, Divi's Laboratory Limited should maintain ideal Current and Quick Ratio. So it is good for the company.**

**2. Profitability Ratio**

| Year | PAT on Net Worth (%) | PAT on Capital employed (%) | PAT of Total Assets (%) |
|---|---|---|---|
| 31-03-11 | 25.8 | 25.4 | 20.7 |
| 31-03-12 | 27.3 | 26.8 | 21.3 |
| 31-03-13 | 25.9 | 25.4 | 19.1 |
| 31-03-14 | 28.3 | 28.1 | 20 |
| 31-03-15 | 25.7 | 25.5 | 17.8 |
| 31-03-16 | 28.1 | 27.8 | 21.7 |

| | | | |
|---|---|---|---|
| 31-03-17 | 21.6 | 21.4 | 16.8 |
| 31-03-18 | 15.3 | 15.2 | 10.9 |
| 31-03-19 | 20.6 | 20.3 | 15.5 |
| 31-03-20 | 19.2 | 19 | 15.1 |

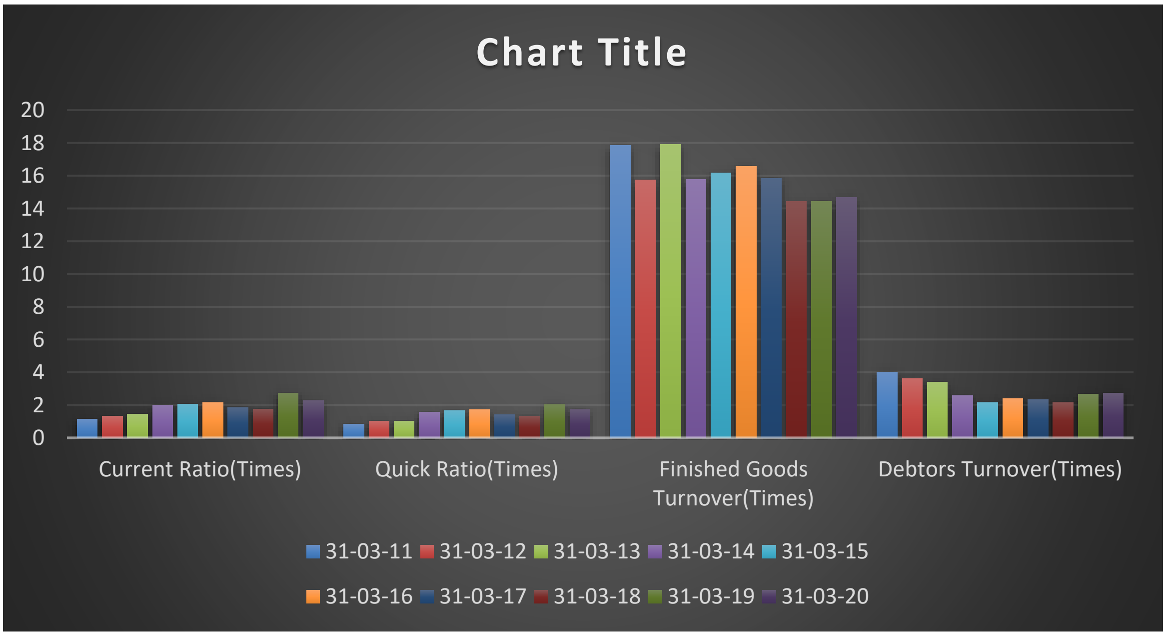
**Here, from the last very few year company's profit very fluctuate so it is not good for the company.**

**3. Dr. Reddy's Laboratory Limited (Ratio Analysis)**

**1. Liquidity Ratio**

| Year | Current Ratio(Times) | Quick Ratio(Times) | Finished Goods Turnover(Times) | Debtors Turnover(Times) |
|---|---|---|---|---|
| 31-03-11 | 1.154 | 0.839 | 17.852 | 4.029 |
| 31-03-12 | 1.337 | 1.018 | 15.738 | 3.618 |
| 31-03-13 | 1.44 | 1.038 | 17.912 | 3.394 |
| 31-03-14 | 1.995 | 1.582 | 15.767 | 2.593 |
| 31-03-15 | 2.071 | 1.677 | 16.166 | 2.165 |
| 31-03-16 | 2.166 | 1.714 | 16.575 | 2.385 |
| 31-03-17 | 1.863 | 1.408 | 15.842 | 2.338 |
| 31-03-18 | 1.764 | 1.338 | 14.431 | 2.165 |
| 31-03-19 | 2.736 | 2.046 | 14.439 | 2.658 |
| 31-03-20 | 2.288 | 1.741 | 14.666 | 2.745 |

**Chart for Ratios**




**Ideal Current Ratio: 1:1**
**Ideal Quick Ratio : 2:1**

**Here, Dr. Reddy's Laboratory should maintain ideal Current and Quick Ratio. So it is good for the company.**

**2. Profitability Ratio**

| Year | PAT on Net Worth (%) | PAT on Capital employed (%) | PAT of Total Assets (%) |
|---|---|---|---|

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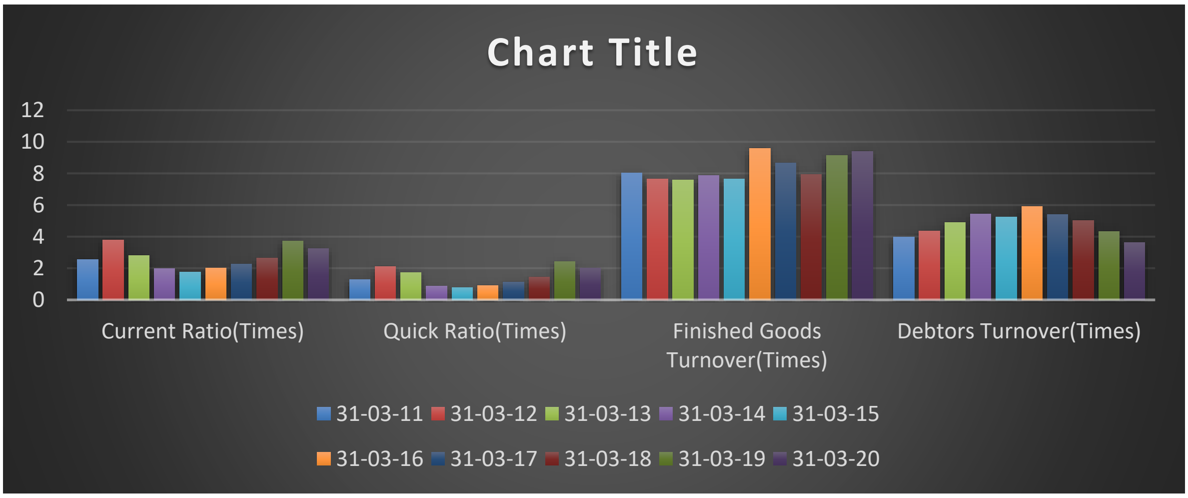
| | | | |
|---|---|---|---|
| 31-03-11 | 15 | 12.8 | 9.3 |
| 31-03-12 | 14.3 | 11.6 | 8.3 |
| 31-03-13 | 17.5 | 14 | 9.9 |
| 31-03-14 | 22.6 | 17.7 | 12.7 |
| 31-03-15 | 16.8 | 13.1 | 9.4 |
| 31-03-16 | 12.1 | 9.5 | 7.5 |
| 31-03-17 | 11.7 | 9.5 | 8.1 |
| 31-03-18 | 4.8 | 4 | 3.3 |
| 31-03-19 | 10.4 | 9.1 | 7.5 |
| 31-03-20 | 21.1 | 19.3 | 16.2 |

**Here, from the last two year company's profit very increase so it is good for the company.**

**4. Cipla Limited. (Ratio Analysis)**
**1. Liquidity Ratio**

| Year | Current Ratio(Times) | Quick Ratio(Times) | Finished Goods Turnover(Times) | Debtors Turnover(Times) |
|---|---|---|---|---|
| 31-03-11 | 2.56 | 1.278 | 8.024 | 3.978 |
| 31-03-12 | 3.802 | 2.125 | 7.655 | 4.37 |
| 31-03-13 | 2.818 | 1.73 | 7.58 | 4.912 |
| 31-03-14 | 1.988 | 0.881 | 7.869 | 5.452 |
| 31-03-15 | 1.753 | 0.77 | 7.647 | 5.242 |
| 31-03-16 | 2.002 | 0.914 | 9.592 | 5.897 |
| 31-03-17 | 2.256 | 1.134 | 8.659 | 5.403 |
| 31-03-18 | 2.652 | 1.451 | 7.953 | 5.041 |
| 31-03-19 | 3.723 | 2.416 | 9.137 | 4.337 |
| 31-03-20 | 3.237 | 2.003 | 9.399 | 3.633 |

**Chart for Ratios**




**Ideal Current Ratio: 1:1**
**Ideal Quick Ratio : 2:1**
**Here, Cipla Ltd. should maintain ideal Current and Quick Ratio. So it is good for the company.**
**2. Profitability**

| Year | PAT on Net Worth (%) | PAT on Capital employed (%) | PAT of Total Assets (%) |
|---|---|---|---|
| 31-03-11 | 15.4 | 14.8 | 11 |

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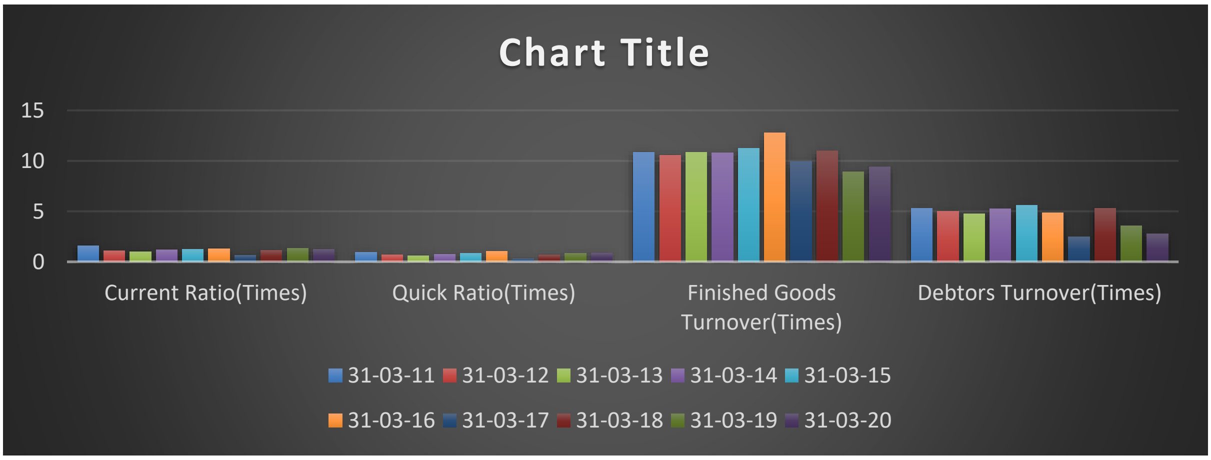
| | | | |
|---|---|---|---|
| 31-03-12 | 15.9 | 15.3 | 12.1 |
| 31-03-13 | 18.4 | 17.3 | 13.8 |
| 31-03-14 | 14.7 | 13.3 | 10.5 |
| 31-03-15 | 11.2 | 10 | 7.6 |
| 31-03-16 | 12.7 | 11.4 | 9 |
| 31-03-17 | 7.9 | 7.4 | 6.1 |
| 31-03-18 | 10.9 | 10.7 | 8.6 |
| 31-03-19 | 12.6 | 12.6 | 10.3 |
| 31-03-20 | 14 | 13.9 | 11.7 |

**Here, from the last two year company's profit very increase so it is good for the company.**
**5. Cadila Healthcare Limited. (Ratio Analysis)**
**1. Liquidity Ratio**

| Year | Current Ratio(Times) | Quick Ratio(Times) | Finished Goods Turnover(Times) | Debtors Turnover(Times) |
|---|---|---|---|---|
| 31-03-11 | 1.616 | 0.951 | 10.868 | 5.3 |
| 31-03-12 | 1.111 | 0.68 | 10.561 | 5.018 |
| 31-03-13 | 1.018 | 0.626 | 10.833 | 4.755 |
| 31-03-14 | 1.172 | 0.739 | 10.809 | 5.246 |
| 31-03-15 | 1.231 | 0.848 | 11.231 | 5.587 |
| 31-03-16 | 1.303 | 1.035 | 12.774 | 4.855 |
| 31-03-17 | 0.654 | 0.33 | 9.937 | 2.472 |
| 31-03-18 | 1.128 | 0.678 | 11.004 | 5.317 |
| 31-03-19 | 1.341 | 0.852 | 8.946 | 3.574 |
| 31-03-20 | 1.242 | 0.877 | 9.404 | 2.766 |

**Chart for Ratios**




**Ideal Current Ratio: 1:1**
**Ideal Quick Ratio : 2:1**
**Here, Cadila Healthcare Ltd. Should not maintain ideal Current and Quick Ratio. So it is not good for the company.**
**2. Profitability Ratio**

| Year | PAT on Net Worth (%) | PAT on Capital employed (%) | PAT of Total Assets (%) |
|---|---|---|---|
| 31-03-11 | 32.9 | 25.1 | 18.3 |
| 31-03-12 | 28.3 | 20.2 | 15.3 |
| 31-03-13 | 18.2 | 11.7 | 9.3 |

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|---|---|---|---|
| 31-03-14 | 27.6 | 18.2 | 14.7 |
| 31-03-15 | 31.2 | 22.7 | 17.9 |
| 31-03-16 | 37.8 | 30.3 | 23.4 |
| 31-03-17 | 10.3 | 7.8 | 6.1 |
| 31-03-18 | 15.3 | 10.9 | 8.7 |
| 31-03-19 | 18.4 | 13.1 | 10.5 |
| 31-03-20 | 14.3 | 10.5 | 8.5 |

**Here, from the few year company's profit very fluctuate so it is not good for the company.**

## LIMITATION OF THE STUDY

This study covers an only top five Pharma company as per market capital size and data covers only ten years from 2010-11 to 2019-2020. Data is taken from company website and Bombay stock exchange and analysis on the basis of secondary data. And also study may lead to variations in the sector.

## CONCLUSION

**1. Sun Pharmaceutical (Ratio Analysis):** Here, Sun Pharmaceutical should not maintain ideal Current and Quick Ratio from last five years. Profit of Sun Pharmaceutical Ltd. Decrease in the year of 17-18 and 18-19 but consequently rise its profit in the year of 19-20. Here, Finished goods turnover and Debtors Turnover Ratio is also good of the company for the over a period of time

**2.Divi'S Laboratory (Ratio Analysis):** Here, Divi's Lab should maintain ideal Current and Quick Ratio. So it is good for the company. From the last very few year company's profit very fluctuate so it is not good for the company.

**3. Dr. Reddy's Laboratory (Ratio Analysis):** Here, Dr. Reddy's Laboratory should maintain ideal Current and Quick Ratio. So it is good for the company. From the last two year company's profit very increase so it is good for the company. Here, Finished goods turnover and Debtors Turnover Ratio is also good of the company for the over a period of time.

**4. Cipla Ltd. (Ratio Analysis)**: Here, Cipla Ltd. should maintain ideal Current and Quick Ratio. So it is good for the company. From the last two year company's profit very increase so it is good for the company.

**5. Cadila Healthcare Ltd. (Ratio Analysis):**Cadila Healthcare Ltd. Should not maintain ideal Current and Quick Ratio. So it is not good for the company. from the few year company's profit very fluctuate so it is not good for the company.

These findings suggest that Divi'S Laboratory, Dr. Reddy's Laboratory, and Cipla Ltd. should maintain their liquidity in order to benefit the company. If a company's cash from operations is translated inside the same operating cycle, it can be very profitable. If this is not achievable, the company may have to borrow to meet its ongoing working capital requirements. While conducting day-to-day operations, a corporation must strike a balance between liquidity and profitability. Working capital management's major goal is to ensure that a company can continue to operate while also being able to meet both maturing short-term debt and impending operational expenses. As a result, managing working capital entails keeping track of goods, accounts receivable, accounts payable, and cash. If a company's cash from operations is translated inside the same operating cycle, it can be very profitable. If this is not achievable, the company may have to borrow to meet its ongoing working capital requirements.

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