ISSN: 2321-7782 (Online)
Volume 2, Issue 8, August 2014
International Journal of Advance Research in Computer Science and Management Studies
Research Article / Survey Paper / Case Study
Available online at: www.ijarcsms.com

Liquidity Analysis of Selected Pharmaceutical Companies: A Comparative Study

Pavitra Yadav
Research Scholar
Haryana School of Business
Guru Jambheshwar University of Science &Technology
Hisar, Haryana – India

***Abstract:** The present paper aims to analyse the liquidity position of the selected pharmaceutical companies by making use of liquidity ratios such as current ratio, quick ratio and absolute liquid ratio for the time spanning from 2009-2013. Short term creditors are mainly interested in the liquidity position of the firms to know the promptness of company to meet its current liabilities. The result shows that among the three selected pharmaceutical companies i.e. Procter and Gamble Ltd., Reddy Pharmaceutical Ltd. and Cipla Ltd.; liquidity position of Cipla Ltd. is best when current ratio and quick ratios are concerned but when absolute liquid ratio is concerned, mixed results are found.*

***Keywords:** Current ratio, Quick ratio, Absolute liquid ratio, Pharmaceutical companies.*

I. INTRODUCTION

Holding liquidity position in a firm is indispensable for a firm. Liquidity ratio endeavours to explicate the short term financial position of the company. It helps to assess whether the company is competent to meet its current debt out of current assets. Therefore, liquidity ratios are also known as short term solvency ratios. But no indication of effectiveness of management of cash resources can be revealed from these ratios. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. Liquidity ratios include two ratios one is current ratio and second is quick ratio or acid test ratio. Short term creditors of the firm are primarily interested in the liquidity ratio of the firm as they want to know how promptly the firm can meet its current liabilities. Different analysts consider different assets to be relevant in calculating liquidity. A study of liquidity is of major importance to both the internal and the external analysts because of its close relationship with day-to-day operations of a business. Liquidity requirement depends on the nature of the firm. To measure the liquidity of a firm, the following ratios are commonly used:

1. **Current ratio**
2. **Quick ratio**
3. **Absolute Liquidity ratio**

Current ratio: Current ratio is relationship between current assets and current liabilities. This ratio is used to assess the firm's ability to meet its short term liabilities on time. Ideal ratio is 2:1.It means the current assets of business should, atleast be twice of its current liabilities. If the current ratio is less than 2:1 it indicates lack of liquidity and shortage of working capital.

Current Ratio=Current Assets/current liabilities

Quick ratio or Acid test ratio or liquid ratio: Liquid assets mean those ratios which will yield cash very shortly. Quick ratios are those in which the firm is in position to pay its current liabilities within a month or immediately. An ideal quick ratio is 1:1.

Quick Ratio=Liquid assets/ current liabilities

Absolute Liquidity ratio: This ratio helps to know the immediate liquidity position of the firm. It can be calculated as:

Absolute Liquidity ratio= cash & bank balance + short term investments/ current liabilities.

II. Review of Literature

Hifza Malik(2011) investigated the determinants of profitability in insurance companies of Pakistan and examine effects f firm specific factor(age ,size, volume of capital, leverage ratio and loss ratio) on profitability proxied by ROA. It includes 35 listed life and non life insurance companies under the period of 2005-2009 lastly concluded that there is no relationship between profitability and age of the company and there is significantly positive association between size of company and profitability. It also shows that volume of capital is significantly and positively related to profitability. Loss ratio and leverage ratio shows negative but significant relationship with profitability.

Karamjeet and Firew(2011) conducted a study to assess the working capital adequacy and its impact on profitability of firms using a sample of 449 Indian manufacturing firms and found that there is significant difference in relative solvency level of firms and firms and firms with adequate working capital.

Rohit and Vipin (2012) investigated on determinants of corporate liquidity in India for a sample of 100 firms in Indian market over the period 1999-2008. It was found that size of firm has no impact on liquidity.

Dhulia Hirenkumar Kantilal (2012) studied on analysis of gross profit to sales ratio of top ten pharmaceutical companies and shows that there is significance difference between in the gross profit to sales ratio among different companies under study as well as different years of each company lastly the researcher concluded that Gross Profit to sales ratio among different companies and among different years under study is not same.

Sandhar et.al (2013) examined the relationship between liquidity and profitability of selected Indian cement companies using regression analysis and revealed that current ratio and liquid ratio are negatively associated with return on assets (ROA) , return on investment (ROI) and cash turnover ratio is negatively associated with ROI and ROA.

Neeraj and Devesh (2013) studied liquidity position and impact on profitability of Tata Steel and steel authority of India. The study found that liquidity position can be improved with the help of low average collection period and average collection can be reduce by proper coordination between sale, production and finance department, lastly conclude that study found positive impact of liquidity position on profitability with the help of various techniques.

Ashok Kumar (2013) studied liquidity position of five leading companies which cover period of 10 years from 2000-2010. It has been found that the liquidity position of small companies are better as compared to big ones .Lastly, it is concluded that companies should maintain an ideal current and liquid ratio.

R.Amsaveni & Gomathi (2013) analysed the fundamental analysis of BSE listed FMCG companies for a period 2006-07 to 2011-2012.Researcher has studied economic, industry and company analysis and found that from economic analysis, GNP, Inflation, Interest rates, Exchange rate foreign exchange reserves, Agricultural Production ,Government Receipts and expenditure has a positive growth rate during the study period and gross domestic product, gross domestic capital formation savings and balance of payments has negative growth rate during the study period.

Sarvanan and Abarna (2014) conducted study on liquidity analysis of selected automobile companies in India using Anova and found that there is significant difference among the absolute liquid ratios of the selected automobile companies.

III. Objective of the Study

To analyse the liquidity position of the selected Pharmaceutical companies.

IV. RESEARCH DESIGN

Source of Data: The study is based mainly on secondary data relating to the study was obtained from the annual reports of the companies. In addition, Magazines, Journals were also referred for finalising the methodology for the study.

Period of Study: The study covers a period of 5 years covering a period from 2009-2010 to 2012-2013. It is also decided by taking into consideration of the availability of data.

Sample of the Study: The researcher have selected only 3 companies irrespective of their size to see to what extent they are profitable financially strength and liquid position. The selected companies are Procter and Gamble Ltd., Cipla Ltd. and Dr. Reddy Laboratories Ltd.

V. FRAMEWORK OF ANALYSIS

The Secondary data was collected from annual reports of companies. Statistical tools are applied to analyse the financial performance with the help of ratios. Calculations were made to test the liquidity performance of selected companies of Pharmaceutical sector.

Analysis and Interpretation

Table 1 given below presents the current ratio of the selected pharmaceutical companies i.e. Procter and Gamble Ltd., Reddy Pharmaceutical Ltd. and Cipla Ltd. for the period 2009 to 2013.

Table-1: Current ratio

Year	Procter and Gamble Ltd.	Reddy Pharmaceuticals Ltd.	Cipla Ltd.
2009	0.807	2.145	2.358
2010	1.116	0.692	2.622
2011	0.885	0.361	2.360
2012	0.862	0.421	3.412
2013	0.952	1.095	1.896

Results of current ratio shows that liquidity position of Cipla Ltd. is higher than other two companies and also more than the ideal current ratio i.e. 2:1 in all the selected years except in 2013 in which it is less than 2:1. Thus, we can say that Cipla Ltd. is capable to repay its current liabilities from its current assets.

Table 2 given below presents the quick ratio of the selected pharmaceutical companies i.e. Procter and Gamble Ltd., Reddy Pharmaceutical Ltd. and Cipla Ltd. for the period 2009 to 2013.

Table-2: Quick Ratio

Year	Procter and Gamble Ltd.	Dr.Reddy Pharmaceuticals Ltd.	Cipla Ltd.
2009	0.545	1.52	1.433
2010	0.929	0.673	1.376
2011	0.622	0.339	1.182
2012	0.630	0.411	1.867
2013	0.647	0.547	0.857

Like current ratio, quick ratio also advocate that the liquidity position of Cipla Ltd. is far better than the rest two companies over the time period. When comparing the liquidity position of Procter and Gamble Ltd. and Dr. Reddy Pharmaceuticals Ltd., we found that Procter and Gamble Ltd. is performing better than Dr. Reddy Pharmaceuticals Ltd. except in 2009.

Table 3 given below presents the absolute liquid ratio of the selected pharmaceutical companies i.e. Procter and Gamble Ltd., Reddy Pharmaceutical Ltd. and Cipla Ltd. for the period 2009 to 2013.

Table-3: Absolute Liquidity Ratio

Year	Procter and Gamble Ltd.	Dr.Reddy Pharmaceuticals Ltd.	Cipla Ltd.
2009	0.269	0.324	0.037
2010	0.801	0.329	0.050
2011	0.478	0.114	0.192
2012	0.457	0.047	0.532
2013	0.425	0.214	0.968

In 2009 the absolute liquid ratio found to be higher in case of Dr.Reddy Pharmaceuticals Ltd. while in 2010 and 2011, Procter and Gamble Ltd. found to be highly liquid whereas in the year 2012 and 2013 Cipla Ltd. is proved to be performing well.

VI. Conclusion

Through the present study the researcher conclude that the liquidity ratio concerned the Cipla ltd. is better and others companies need to improve their liquidity position their liquidity position for better performance. A caution attention has to be paid as far as liquidity is concerned to improve the profitability.

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