



ANALYSIS OF THE PROFITABILITY AND LIQUIDITY RATIOS OF PHARMACEUTICAL COMPANIES IN INDIA

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ABSTRACT

This paper examines the impact of profitability and liquidity ratios of selected pharmaceutical companies in India. Objective of the study is to analyze the profitability and liquidity position of selected pharmaceutical companies in India. For this purpose a sample of selected pharmaceutical companies namely Sun Pharmaceutical Industries Limited and Divi's Laboratories have been selected for the study. The data have been taken for a period of five years (2016 -2020) and secondary data is used because the data is collected from the balance sheet for analysis . Ratios have been used to analyze the position of selected companies.

KEYWORDS: Sun Pharmaceutical Industries Limited & Divi's Laboratories, Profitability ratio and liquidity ratio.

1. INTRODUCTION

The history of Indian pharmaceutical markets in 1970's was almost non-existent .Today India has gained immense importance and carved a niche for itself in the pharmaceutical domain. In today's world, Indian pharmaceutical industry ranks 4 th in terms of volume and 13 th in terms of value. In fact, it has emerged as a big mart for the pharmaceutical industry. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers with a potential to steer the industry ahead of greater heights .Pharmaceutical mean basically products which are extracted from pharmaceutical firms. Pharmaceutical companies create drugs which are used to take care of various diseases both in humans and in addition to animals. They are basically categorized as drugs which are given with doctor prescribed of a physician and over the counter medicines. Animal healthcare is also a fundamental element of some pharmaceutical firms. Medicines are created based on results of in depth research and remember diseases and outward indications of animals. Veterinary physicians prescribe these drugs for pets along with other domestic pets or animals. The safety of the drugs can be checked and medically tested

before it really is launched in to the open market. .Pharmaceutical industry promotes the sustainable development in the vital fields of medicines by boosting the quality producers and many units approved by regulatory authorities in USA and UK. The Indian pharmaceutical industry has become the third largest producer in the world. Pharmaceuticals have grown to be a significant section of health care because of their humongous factor towards betterment of open public health. They have helped to improve life time by treating conditions that were otherwise incurable.

2. STATEMENT OF THE PROBLEM

Finance is the lifeblood of business for the development of any country. In our present scenario the future decision of business communicated to the users and decided with the help of the present financial position of the company. Financial statement contains the two statements namely balance sheet and profit and loss accounts, a firm can analyze its present financial performance in terms of liquidity and profitability. This helps to take appropriate decision to improve its profitability as well as liquidity. The problem statement



is "Analysis of the profitability and liquidity ratios of pharmaceutical companies in India".

3. OBJECTIVE OF THE STUDY

- To analyse the factors influencing the profitability ratios of Sun and Divi's pharmaceutical companies in India

- To analyse the factors influencing the Liquidity ratios of Sun and Divi's pharmaceutical companies in India
- To evaluate the findings, suggestions and conclusion for decision making.

4. RESEARCH METHODOLOGY

Source of Data	Secondary data
Period of Study	2015-2016 to 2019 – 2020
Framework of analysis	Financial Statements
Tools and Techniques	Ratio analysis

5. STATISTICAL TOOLS

The following statistical tools were applied to analyze the statistical data collected for calculation of financial performance analysis:

Ratio Analysis

- Current Ratio
- Liquid Ratio
- Absolute liquidity Ratio
- Gross Profit Ratio
- Net Profit Ratio
- Operating Profit Ratio
- Operating Ratio
- Expenses Ratio

6. REVIEW OF LITERATURE

Dr.Mohmad Mushtaq Khan, Dr. K. BhavanaRaj (2020) in his study on "Liquidity - profitability analysis & prediction of Bankruptcy - A study of Select telecom companies" The present study aims at analyzing the financial health of Indian Telecom Industry and predicting the bankruptcy of selected companies. There are around ten telecom companies in Indian Telecom Industry. The top six companies were selected for the study on the basis of market capitalization. The study analyzed impact of liquidity and profitability on Altman Z-score model developed exclusively for service companies. The study is empirical and descriptive in nature and the period under study was from 2006-07 to 2016-17. The data was extracted from the financial reports of selected telecom companies.

1.Dr.Mohmad Mushtaq Khan, Dr.K.Bhavana Raj," Liquidity - profitability analysis and prediction of Bankruptcy - A study of Select telecom companies - ISSN:2394-5125 VOL 7 ISSUE 3,2020 Journal of critical reviews.

Hawa Singh(2018) in his study "Liquidity analysis of Pharmaceutical companies" Indian pharmaceutical market is one of the highest growing industries in the world. This research study is conducted to know and analysis the liquidity of companies. A sample of three pharmaceuticals companies draw from NSE Pharma Index by convenience sampling.

2.Hawa Singh" Liquidity analysis of Pharmaceutical companies "Journal of emerging technologies and innovative research (JETIR)

AkankshaPuwar, KashishJalan ,AshimGarg (2017) in his study on "Financial Analysis of Pharmaceutical companies in India" Being the world's third largest industry by volume and thirteenth largest in terms of value, Indian pharmaceutical industry is likely to become leader in manufacturing soon. It is one of the major contributors to Indian economy with a growth percentage of 7 -8%.

3.Akanksha puwar. Kashish Jalan, Ashim Garg "Financial Analysis of Pharmaceutical companies in India" International journal of science and research ISSN(online) :2319-7064



7.1 TABLE [RATIO ANALYSIS OF SUN PHARMACEUTICAL INDUSTRIES LTD]

Year	Current Ratio	Liquid Ratio	Absolute Liquid Ratio	Gross Profit Ratio	Net Profit Ratio	Operating Profit Ratio	Operating Ratio	Expenses Ratio
2016	0.60	0.36	0.019	56.9%	15.9%	28.6%	88.2%	72%
2017	0.58	0.37	0.015	54.6%	22%	32%	83.5%	68%
2018	0.76	0.59	0.012	46.6%	8%	21%	99%	77%
2019	0.84	0.63	0.025	52%	11%	21.7%	98.8%	79%
2020	1.06	0.83	0.058	48%	11.5%	21%	91.9%	77%
AVERAGE	1.92	1.39	0.064	48%	34%	62%	91.9%	68%

7.2 TABLE [RATIO ANALYSIS OF DIVI'S LABORATORIES]

Year	Current Ratio	Liquid Ratio	Absolute Liquid Ratio	Gross Profit Ratio	Net Profit Ratio	Operating Profit Ratio	Operating Ratio	Expenses Ratio
2016	6.04	3.79	0.111	44%	29%	38%	71%	61%
2017	6.15	4.24	0.101	43%	26%	35%	76.7%	65%
2018	7.11	5.10	0.142	49%	22%	32%	79%	67%
2019	5.58	3.58	0.126	45%	27%	37%	73%	68%
2020	5.16	3.23	0.118	42%	25%	33%	77.7%	68%
AVERAGE	5.16	3.23	0.299	42%	22%	32%	73%	65%

- ❑ It is found that Sun Pharmaceutical Industries average Current Ratio is increases by year by year and Divi's Laboratories average current ratio is also increases by year by year and the Divi's Laboratories current ratio more than the standard norm 2:1 too.
- ❑ It is found that Sun Pharmaceutical Industries average liquid ratio is increases by year by year and Divi's Laboratories average liquid ratio is not under the standard norms 1:1 which shows that it incur more liquid assets to pay off the current liabilities.
- ❑ It is found that the Sun Pharmaceutical Industries and Divi's Laboratories Absolute liquid ratio is less than the standard norm of 0.5:1 and it has no sufficient Absolute liquid Assets to pay off the Current Liability.
- ❑ It is found that the Sun Pharmaceutical Industries and Divi's Laboratories Gross profit ratio is growing stages.
- ❑ It is found that the Sun Pharmaceutical Industries and Divi's Laboratories net profit ratio is increases as well as decreases and in sun pharmaceutical companies it is under 10 %also.
- ❑ It is found that the Sun Pharmaceutical Industries and Divi's Laboratories operating profit ratio is in concern level under 50 % in both the pharmaceutical companies.

- ❑ It is found that the Sun Pharmaceutical Industries and Divi's Laboratories Operating ratio is increases as well as decreases on both the Pharmaceutical companies.
- ❑ It is found that the Sun Pharmaceutical Industries and Divi's Laboratories Expenses Ratio is in moderate to both the companies.

8. SUGGESTIONS

- ❖ The gross profit of the companies may be improved by increasing the sales price or can decreases by cost of the sales.
- ❖ The companies day to day flowing of the cash needed to be improved.
- ❖ The assets of the companies should to enhanced so that it will helps them to pay off their liabilities.
- ❖ The company should lower the costs and start to increases the sale and the services .
- ❖ By reducing the expenses met by the companies it also will increase in the profit of the company.

9. CONCLUSION

This study is analysed with the help of past five years financial performance of Sun pharmaceutical industries and Divis laboratories. The study is resulted that the overall efficiency of the sun pharmaceutical industries and Divis laboratories of the business



performance .And for the further growth the pharmaceutical industries should take look upon the profits of the business concern.

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