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LIQUIDITY & PROFITABILITY ANALYSIS OF THE PHARMACEUTICAL COMPANIES OF INDIA

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ABSTRACT
The efficiency of the finance manager does not lie only on assets side of the balance sheet, but he has to efficiently manage liabilities side also. This sutdy deals with liabilities side of the balance sheet. To go minute, this study deals with finance managers' efficiency with respect to short-term liabilities. Current ratio and quick ratio adequately captures short-term operations of the firm. Financial activities of pharmaceutical companies are centered on long-term decisions, as they are more inclined towards apt research and development. Research and development is the key for success of the pharmaceutical business. But, simultaneously, they have to take care of their routine and short-term business operations. Current ratio and quick ratios are parameters for the same. Cipla is more efficient as compared to other companies in keeping their liquidity intact. Other companies found it difficult to manage their short-term funds and liquidities. To be more specific, Ranbaxy had the lowest levels of current and quick ratio. It is undoubted that both the companies are sound with their research and development and quality of the product in their segments. Hence, their inclination will always be towards focusing on their strength rather than weakness. So, current ratio and quick ratio of both of these firms are not so sound, but looking at the long-term efficiency the efficiency of their finance manager cannot be undermined.

KEYWORDS
Indian pharmaceutical companies, liquidity analysis, profitability analysis.

INTRODUCTION
In the quest for achieving maximum profitability in highly competitive business scenario, the crunch of liquidity is slightly ignored by industries. There is always a tradeoff between liquidity and profitability. Whenever, the firm focuses on maintaining a certain level of profitability, its liquidity level gets negatively affected and vice-versa.

For any firm, profitability is always more important than liquidity because of its long-term focus and strategic goals. At the same time, liquidity can affect the reputation level of the firm. Because of short fall in the level of liquidity of any firm, if the firm delays the payment to its trade creditors, it can immediately impact reputation of the firm. Liquidity short fall is such a lethal to the firm that the reputation which the firm might have managed to create in market can be destroyed in quite a short time without any direct effort.

Following the nature of short-term, liquidity decisions are mostly less attended by finance managers. Working capital management is recently given lot of weight by industry experts. The large part of problem starts here. If a firm increases its investment in current assets, the level of investment in fixed assets comes down and hence the profitability also comes down. Simultaneously, firm cannot afford to keep its current assets at lower level with the target of achieving higher profits. So, the find out the adequate mix of current assets and fixed assets questions expertise of finance manager.

Indian pharmaceutical industry is able to meet around 70 percent of the nation's demand of drug and drug intermediates. There are around 8250 large, small and medium scale units of pharmaceutical industry in India out of which 5 are public sector units. Looking into the size of pharmaceutical industry this study is taken up to address the concern of liquidity of pharmaceutical companies in India.

LITERATURE REVIEW
Eljelly (2004) took the sample of 929 companies from Saudi Arabia. He found current ratio to be negatively correlated with profitability of the firm.

Lazaridis and Tryfonidis (2006) conducted a study of 131 firms listed on Athens Stock Exchange (ASE). They studies these firms for the period of four years from 2001 to 2001 and found that correct handling of receivables, payables and inventory can make significant positive impact on firm's profits.

Chakraborty and Bandopadhyay (2007) have highlighted that the decisions with respect to strategic current assets and current liabilities has multidimensional impact on company's performance.

Raheman and Nasr (2007) based their study in Pakistan and selected 94 Pakistani firms listed on Karachi Stock Exchange (KSE). They took five years data from 1999 to 2004 to study the impact of working capital management on profitability and found negative relationship.

Singh and Pandey (2008) studied the relationship of liquidity and profitability of Hindalco Limited and found that combination of fixed assets and currents assets plays vital role in successful working of any business. They also cited that liquidity and profitability are directly correlated.

Bhunia (2010) studies the case of Indian pharmaceutical industry and inferred that Indian pharmaceutical company has strong liquidity position.

Gogia and Gupta (2013) studied five companies for the period of 10 years from 2000 to 2010 and found that small companies had better liquidity position than the bigger companies. They also emphasized on companies to maintain ideal current ratio.

Sarvanan and Abarna (2014)'s study was contextualized in India. The study took the sample of selected automobile companies and analyzed the liquidity position through by using Anova as statistical tool and found the significant difference in chosen ratios of sample firms.

RESEARCH METHODOLOGY
The study is aimed at studying liquidity scenario of sample pharmaceutical companies in India. The time period for which the companies are studied is of four years from 2010-'11 to 2013-'14. In order to study pharmaceutical industry four major companies of the industry were chosen. These were;

1. Ranbaxy Laboratories
2. Cipla Pharmaceuticals
3. Dr. Reddy's Laboratories
4. Lupin Pharmaceuticals

In order to achieve the objective of studying the profitability of sample companies six profit parameters were chosen for the study. These were;

1. Current Ratio
2. Quick Ratio

The requisite data were sourced through the websites of National Stock Exchange of India (www.nseindia.com), Money Control (www.moneycontrol.com) and the annual reports of the companies given on companies' website. Descriptive statistics and ANOVA test was used to perform statistical analysis and 5% level of significance was used.

HYPOTHESES

CURRENT RATIO

$H_{(0)}$: The current ratio does not differ significantly among different pharmaceutical firms.

$H_{(1)}$: The current ratio differs significantly among different pharmaceutical firms.

QUICK RATIO

$H_{(0)}$: The quick ratio does not differ significantly among different pharmaceutical firms.

$H_{(1)}$: The quick ratio differs significantly among different pharmaceutical firms.

DATA ANALYSIS AND DISCUSSION

Descriptive statistics like trend of defined performance measures from the year 2007-08 to 2013-14, mean, standard deviation, minimum and maximum are used to analyze the data. Anova test is performed to analyze the difference in various performance measures among different pharmaceutical companies.

CURRENT RATIO (%)

TABLE 1: CURRENT RATIO (%)

Year	Ranbaxy	Cipla	DRL	Lupin
2010-'11	1.4	2.59	1.66	1.1
2011-'12	0.76	3.18	1.7	1.19
2012-'13	0.81	1.95	1.62	1.59
2013-'14	0.68	1.92	1.96	2.81
Mean	0.91	2.41	1.74	1.67
S.D.	0.33	0.60	0.15	0.79
Minimum	0.68	1.92	1.62	1.1
Maximum	1.4	3.18	1.96	2.81

Current ratio is calculated by dividing current assets with current liabilities. In that sense it is an indicator of companies' liquidity position. It gives a picture of the firms' liquidity for shorter period of time. Current assets largely include inventories, cash and cash equivalents and receivables. While current liabilities include short-term loans and other borrowings and payables. Several of the experts are of the opinion that current ratio should be around 2:1.

When current ratio takes care about short-term liquidity position of the company, it is important to understand the nature of the business. Research and development is one of the most important investments for pharmaceutical firms and hence they may not be so concerned about their short-term liquidity position. The nature of their balance sheet would largely reveal that they have more long-term assets and less short-term assets.

The current ratio of sample pharmaceutical firms is well above the level of 2:1. In case of Ranbaxy, following its plan for the long-term acquisitions and research efforts current ratio is not so significant. Otherwise, in remaining all company's current ratio is quite satisfactory. Cipla had the highest current ratio on average basis.

QUICK RATIO (%)

TABLE 2: QUICK RATIO (%)

Year	Ranbaxy	Cipla	DRL	Lupin
2010-'11	1.6	2.06	1.91	1.75
2011-'12	0.84	1.95	1.84	1.59
2012-'13	0.95	1.68	2.02	1.69
2013-'14	0.85	1.5	2.7	2.27
Mean	1.06	1.80	2.12	1.83
S.D.	0.36	0.25	0.40	0.30
Minimum	0.84	1.5	1.84	1.59
Maximum	1.6	2.06	2.7	2.27

It is seen from the table above that unlike Cipla in case of current ratio; Dr. Reddy's Laboratory has the highest quick ratio amongst sample firms. It is also worth observing that volatility in quick ratio was also seen highest in case of Dr. Reddy's Laboratory. In case of Ranbaxy in spite of having low average quick ratio, the standard deviation was significantly higher.

Quick ratio is even stricter and more appropriate parameter of liquidity. The most important difference between current ratio and quick ratio is that quick ratio takes into consideration most liquid assets of the firm. In this context, quick ratio includes; cash and cash equivalent, marketable securities and receivables. Quick ratio is also known as acid-test ratio.

HYPOTHESES TESTING

TABLE 3: ANOVA TEST

Ratio	F	Sig.	Ho	Remarks
Current Ratio	9.582	.000	Rejected	Significant Difference
Quick Ratio	9.412	.000	Rejected	Significant Difference

The anova test was performed to test whether the current ratio and quick ratio are different among different pharmaceutical firms. Table 3 suggests higher F value for both the ratios. Also, the p-value was into rejection region as it was below 5 percent. This means that rejection of null hypotheses and acceptance of alternate hypotheses. For the values mentioned in table 3 it can be said that the quick ratio and current ratio of all sample firms for the sample time period were significantly different.

DISCUSSION

In short run businesses are subject to large fluctuations. In such a situation it becomes important for analysts to give weight to the company's long-term policies and long-term goals. Current ratio and quick ratio are the parameters to measure the ability of finance manager of the companies to mange short-term operations. Many pharmaceutical companies which are focused on research and development are facing problems in short-term operations. This study also reveals the same. As the business model of pharmaceutical companies is different from other type of companies, the reasons for not able to maintain ideals of current ratio and quick ratio are;

1. The need of long-term assets and liabilities is higher in case of pharmaceutical companies as the focus of their business is on better research and development.
2. The inventory level is generally higher in pharmaceutical companies as they are generally keeping stock to meet any unexpected emergency.

CONCLUSION

The efficiency of the finance manager does not lie only on assets side of the balance sheet, but he has to efficiently manage liabilities side also. This sutdy deals with liabilities side of the balance sheet. To go minute, this study deals with finance managers' efficiency with respect to short-term liabilities.

Current ratio and quick ratio adequately captures short-term operations of the firm. Financial activities of pharmaceutical companies are centered on long-term decisions, as they are more inclined towards apt research and development. Research and development is the key for success of the pharmaceutical business. But, simultaneously, they have to take care of their routine and short-term business operations. Current ratio and quick ratios are parameters for the same. Cipla is more efficient as compared to other companies in keeping their liquidity intact. Other companies found it difficult to manage their short-term funds and liquidities. To be more specific, Ranbaxy had the lowest levels of current and quick ratio. It is undoubted that both the companies are sound with their research and development and quality of the product in their segments. Hence, their inclination will always be towards focusing on their strength rather than weakness. So, current ratio and quick ratio of both of these firms are not so sound, but looking at the long-term efficiency the efficiency of their finance manager cannot be undermined.

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