

A STUDY ON LIQUIDITY AND SHORT-TERM SOLVENCY POSITION OF SELECT PHARMACEUTICAL COMPANIES IN INDIA

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Abstract

Pharmacy sector is one of the growing sectors in the Indian economy. This indicates huge potential for growth. The present study attempts to analyze the liquidity and short-term solvency position of the select pharmaceutical companies in India, in terms of current ratio, liquid ratio and absolute liquid ratio for the period of 10 years from 2008 to 2017. For the study five companies have been selected based on top market capitalization. The study found that the current ratio of Cipla Ltd., Lupin Ltd. and Piramal Enterprise Ltd. are holding more current assets compare to standard norms 2:1 ratio and the liquid ratio of Cipla Ltd. and Lupin Ltd. are maintaining more than the rule of 1:1. But the absolute liquid ratio of all companies is below the standard norms of 1:2. It can be conclude that the liquidity position of the select firms are not satisfactory. The findings of the study provides insights into the financial health of the select pharmaceutical companies in India.

Keywords: *Liquidity, Solvency position, short-term obligations, liquidity ratios.*



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Introduction

Finance is a life blood of every business concern. Without having effective financial management, that business concern cannot compete in the competitive world in the present scenario of liberalization, privatization, and globalization. Holding sufficient liquidity in the business is essential for every company. Liquidity ratios endeavor to explain the short term financial position of the company. It helps to estimate whether the company is in a position to meet its short term obligations. Therefore, liquidity ratios are also called as short term solvency ratios. The short term creditors of a company and commercial banks providing short term loans, are primarily interested in knowing whether the company's ability to meet its short term obligations as and when they become due.

Indian Pharma Sector

Pharmacy sector is one of the growing sectors in the Indian economy. Change in the life style of the people is contributing to the increasing number of health problems among the people.

Innovation in pharmaceuticals, especially in the areas like Biotechnology, Genetic engineering, Microbiology etc., is helping the development of new medicines to meet the growing health problems. The Indian pharma market is the third largest in terms of size and thirteenth largest in terms of value, in the world. The country also has created a large space for scientists and engineers who have the potential to steer the industry in the future to an even upper level. The Indian pharma industry, which is estimated to grow over fifteen per cent per annum between 2015 and 2020, will overtake the global pharma industry, which is set to grow at an annual rate of five per cent between the 2015 and 2020. The pharma market is expected to grow to the US\$ 55 billion by the year 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size, as indicated by Mr Arun Singh, Indian Ambassador to the US. Branded generics dominate the pharmaceuticals market, constituting almost 80 per cent of the market share in terms of revenues. The sector is expected to generate 58,000 additional employment opportunities by the year 2025. India's pharmaceutical trades 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).

Need For The study

The short-term obligation of a firm can met only when there are sufficient liquid. Therefore, a firm must confirm that it does not suffer from lack of liquidity or capacity to pay its short term obligation. Even a very high degree of liquidity is not good for a firm because such a situation represents unnecessarily excessive funds of the firm being tied up in current assets. Therefore it is quite essential to know the short term solvency position of the company. One of the fundamental duties of finance manager is to maintain optimal liquid to meet short term obligation of the company. Hence, this study is needed to measure the short term solvency position of select pharmaceutical companies.

Literature review

Md. To fael Hossain Majumder and Mohammed Mizanur Rahman (2011) had observed that the financial statement of the Pharmaceutical industry that is profit earning capacity, liquidity position, financial position and the performance of the most of the Pharmaceuticals are not in sound position and it was also stated that the most of the Pharmaceuticals have a lower level position of bankruptcy. Robert Nyabwanga et al. (2013) found that the liquidity position of the SMEs was below the average and solvency position and financial health was not good.

They found that the current ratio, quick ratio and debt to total assets ratio has significant impact on return on assets. Vijayalakshmi and Srividya (2014) had found that gross profit ratio, operating ratio, return on equity capital, and earnings per share, have significant effect on the net profit ratio and profitability ratio of select pharmaceutical companies is satisfactory. M. Krishnamoorthi (2016) in a paper liquidity performance evaluation of select companies in India- descriptive study found that the generating of income from assets is a very good position in the majority of large and mid-cap steel companies, but Visa and Kalyanifail to increase its return on assets due to inefficient and ineffective uses of assets. Neetusaini and Sanjeev Bansal (2017) had studied pharma industry and 30 companies have taken randomly and found that all the companies have maintaining sufficient liquid in the firm and current ratio is satisfactory for the study period. Also so found that among all the companies Sun Pharma and Divids Lab have maintaining higher current ratio compare to role of thumb.

Objective Of the study

To analyse the liquidity position of the select pharmaceutical companies

To analyse the short term solvency position of the select pharmaceutical companies

Research methodology of the study

The research methodology yadopted fort his study is presented as follows.

Source of the data

The study is undertaken with help of secondary data. The data required for the study is collected from financial statements of the companies. This financial statement information is acquired from online database i.e., Capitaline Database.

Sample Selection

The sample for the study is selected from listed pharmaceutical companies in India. At present 211 pharma companies have been listed with BSE &NSE in India. Out of them, top five companies have been selected based on their market capitalization for the study. The selected top five companies are Sun Pharmaceutical industries Ltd., Cadila Health Care Ltd., CiplaLtd., Piramal Enterprise and LupinLtd..

Period of the study

Period ofthe present studyconsist of 10years i.e. from theyear 2007-08 to 2016-17.

Scope of the Study

The present study focused only on select five pharmaceutical companies based on their market capitalization. They are Sun Pharmaceutical industries Ltd., Cadila Health Care Ltd., Cipla Ltd., Piramal Enterprise and Lupin Ltd. The study is restricted to only ten years from 2007-08 to 2016-17 financial years.

Analytical Frame work of the study

For analyzing data and to draw the meaningful conclusion, number of financial tools is used for the study. Here a few financial techniques have been used for proper analysis and draw the meaningful conclusions. The financial ratios are current ratio, quick ratio and absolute liquid ratio.

Current Ratio

Current ratio is the relationship between current assets and current liabilities. This ratio measures the short term liquidity position or short term solvency position of the firm. It indicates that the amount of current assets is available to current liabilities. The higher the current ratio the higher will be the firm's ability to meet its short term obligation and the greater will be the safety to the short-term creditors. The high current ratio may not indicate good liquidity position but may be the signal of excessive of stock over the current requirements, debtors may high due to in efficiency in collection and high cash and bank balance may be lying idle because of inefficiency in investment decision. The general rule of thumb of current ratio 2:1 is satisfactory. It may differ from industry to industry. Current ratio is calculated as.

Current Assets

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Liabilities

Quick Ratio

Quick ratio is the relationship between quick assets and current liabilities. Quick assets refers to those assets can be converted into cash immediately or in a short without incurring any losses. Quick assets represent total current assets except inventory and prepaid expenses. Quick ratio refers to the ability of a firm to pay its short-term solvency position. The general rule of thumb of quick ratio 1:1 is satisfactory. Quick ratio is calculated as.

Quick Assets

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Current Liabilities

Absolute Liquid Ratio

Absolute liquid ratio is the relationship between absolute liquid assets and current liabilities. Absolute liquid assets represents cash in hand, cash at bank and short term marketable securities. Absolute liquid ratio is helps to know the immediate liquid position of the firm. The general rule of thumb of quick ratio 1: 2 is satisfactory. Absolute liquid ratio is calculated as.

Absolute liquid Assets

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

Current Liabilities

Results and Discussion

Liquidity Position Based on Current Ratio

The current ratio represents the short term solvency position of the firm. Higher the current ratio indicate that the firm in a position to pay its short term obligations.

Table: 1 Current Ratio

Year	Sun Pharmaceutical industries Ltd.	Cadila Healthcare Ltd.	CiplaLtd.	Piramal Enterprise Ltd.	LupinLtd.
2008	2.84	2.58	2.91	2.56	3.16
2009	2.99	2.58	3.49	3.4	1.97
2010	2.62	2.18	3.58	2.84	2.99
2011	3.90	1.82	3.72	5.81	2.91
2012	3.20	2.03	3.70	1.43	2.85
2013	2.64	2.38	3.61	3.05	3.07
2014	2.65	2.12	3.14	1.95	3.63
2015	0.99	1.94	2.82	4.06	2.94
2016	1.11	2.50	3.25	3.84	4.6
2017	1.11	1.63	2.56	2.93	3.6
Mean	2.41	2.18	3.28	3.19	3.17
Standard deviation	1.00	0.33	0.41	1.22	0.68
Coefficient of Variation	41.49	15.14	12.50	38.24	21.45

Source: Computed from compiled data

It is evident from table 1 that the current ratio of Sun Pharmaceutical Industries Ltd. is in a sound liquidity position from 2008 to 2014. The current ratio is highest (3.90) in the year 2011 and it is lowest (0.99) in the year 2015. The rule of thumb of current ratio is 2:1, whereas Sun pharmaceutical industries Ltd. is maintaining the current ratio above the rule of thumb from the year 2008 to 2014 which shows sound liquid to pay its short-term obligation. But it shows that the current ratio is lower than the rule of thumb from the year 2015 to 2017. The lower current ratio is an indication that the Sun Pharmaceutical Industries Ltd. is not having good liquidity position for last three years. Which indicates the firm not in a position to pay its current obligations in time as and when they become due.

The current ratio of Cadila Healthcare Ltd. is in a sound liquidity position except the year 2011, 2015, and 2017. The current ratio is highest (2.58) in the year 2008 and 2009, and it is lowest (1.63) in the year 2017. The rule of thumb of current ratio is 2:1, whereas Cadila Healthcare Ltd. is maintaining the optimal current ratio except the years 2011, 2015 and 2017. But it shows that the current ratio is lower than the rule of thumb for the year 2011, 2015 and 2017. The lower the current ratio is an indication that the Cadila Healthcare Ltd. is not liquid sound for last three years. Which indicates the firm's not in a position to pay its current obligations in time as and when they become due.

The current ratio of Cipla Ltd. is in a sound liquidity position for the study period. The current ratio is highest (3.72) in the year 2011 and it is lowest (2.56) in the year 2017. The rule of thumb of current ratio is 2:1, whereas Cipla Ltd. is maintaining the current ratio above the rule of thumb for the study period. It indicates that the Cipla Ltd. has sound liquid position to pay its short-term obligations in time as and when they become due.

The current ratio of Piramal enterprise Ltd. is in a sound liquidity position except the year 2012 and 2014. The current ratio is highest (5.81) in the year 2011 and it is lowest (1.43) in the year 2014. The rule of thumb of current ratio is 2:1, whereas Piramal Enterprise Ltd. is maintaining the current ratio above the rule of thumb except the year 2012 to 2014 which shows Piramal Enterprise Ltd. is in sound liquid to pay its short-term obligation in time as and when they become due.

The current ratio of Lupin Ltd. is in a sound liquidity position except the year 2009. The current ratio is highest (4.60) in the year 2016 and it is lowest (1.97) in the year 2009. The rule of thumb of current ratio is 2:1, whereas Lupin Ltd. is maintaining the current ratio

above the rule of thumb except the year 2009 which indicates that Lupin Ltd. is in sound liquid position to pay its short-term obligation in time as and when they become due.

Coefficient of variation of current ratio of Sun Pharmaceutical Industries Ltd. (41.49), Piramal Enterprise Ltd. (38.24), Lupin Ltd. (21.45) are higher than the Cipla Ltd. (12.50) and Cadila Healthcare Ltd. (15.14) which indicates that Sun Pharmaceutical Industries Ltd., Piramal Enterprise Ltd. and Lupin Ltd. companies are less consistency compare to Cipla Ltd. and Cadila Healthcare Ltd..

Liquidity Position Based On Quick Ratio

The Quick Ratio represents the current assets except inventory and prepaid expenses. The quick assets are easily converted into cash within a short period. Quick ratio shows short term solvency position of the firm. Higher the quick ratio indicate that the firm in a position to pay its quick short term obligations.

Table: 2 Quick Ratio

Year	Sun Pharmaceutical Industries Ltd	Cadila Healthcare Ltd.	CiplaLtd.	Piramal Enterprise Ltd.	LupinLtd.
2008	2.05	0.80	1.14	0.84	1.55
2009	2.13	0.95	1.56	0.85	0.79
2010	1.06	0.79	1.33	0.56	1.23
2011	2.44	0.81	1.36	2.27	1.53
2012	2.09	1.02	1.38	0.25	1.42
2013	1.05	1.16	1.35	0.26	1.56
2014	0.61	0.97	1.15	0.16	2.24
2015	0.41	1.03	0.98	0.36	1.58
2016	0.46	1.66	1.07	0.62	2.90
2017	0.51	0.72	0.90	0.81	2.06
Mean	1.28	0.99	1.22	0.70	1.69
Standard deviation	0.77	0.26	0.20	0.58	0.55
Coefficient of Variation	60.16	26.26	16.39	82.86	32.54

Source: Computed from compiled data

Table 2 presents liquid ratio of select pharmaceutical companies in India. The liquid ratio of Sun Pharmaceutical Industries Ltd. is in a sound liquidity position from 2008 to 2013. The liquid ratio is highest (2.44) in the year 2011 and it is lowest (0.41) in the year 2015. The rule of thumb of liquid ratio is 1:1, whereas Sun Pharmaceutical Industries Ltd. is maintaining the liquid ratio above the rule of thumb from the year 2008 to 2012 which shows sound liquid

position to pay its short-term obligation. But it shows that the liquid ratio is lower than the rule of thumb from the year 2014 to 2017. The lower the liquid ratio is an indication that the Sun Pharmaceutical Industries Ltd. is not liquid sound for last four years. Which indicates the firm not in a position to pay its short-term obligations in time as and when they become due.

The liquid ratio of Cadila Healthcare Ltd. is not in a sound liquidity position except the year 2012, 2013, 2015 and 2016. The liquid ratio is highest (1.66) in the year 2016 and it is lowest (0.72) in the year 2017. The rule of thumb of liquid ratio is 1:1, whereas Cadila Healthcare Ltd. is maintaining the optimal liquid ratio for the years 2012, 2013, 2015 and 2016. But it shows that the liquid ratio is lower than the rule of thumb for the remaining years. The lower the liquid ratio is an indication that the Cadila Healthcare Ltd. is not liquid sound except four years. Which indicates the firm not in a position to pay its short term obligations in time as and when they become due.

The liquid ratio of CiplaLtd. is in a sound liquidity position except the year 2015 and 2017. The liquid ratio is highest (1.56) in the year 2009 and it is lowest (0.90) in the year 2017. The rule of thumb of liquid ratio is 1:1, whereas Cadila Healthcare Ltd. is maintaining the optimal liquid ratio except the years 2015 and 2017. It indicates that the CiplaLtd. has sound liquid position to pay its short-term obligations in time as and when they become due.

The liquid ratio of Piramal enterprise Ltd. is not in a sound liquidity position except the year 2011. The liquid ratio is highest (2.27) in the year 2011 and it is lowest (0.16) in the year 2014. The rule of thumb of liquid ratio is 1:1, whereas Piramal Enterprise Ltd. is maintaining the liquid ratio below the rule of thumb except the year 2011 which shows Piramal Enterprise Ltd. is not in a sound liquid to pay its short-term obligation in time as and when they become due.

The liquid ratio of LupinLtd. is in a sound liquidity position except the year 2009. The liquid ratio is highest (2.90) in the year 2016 and it is lowest (0.79) in the year 2009. The rule of thumb of liquid ratio is 1:1, whereas LupinLtd. is maintaining the liquid ratio above the rule of thumb except the year 2009 which indicates that LupinLtd. is in sound liquid position to pay its short-term obligation in time as and when they become due.

Coefficient of variation of liquid ratio of Sun Pharmaceutical Industries Ltd.(60.16), Piramal Enterprise Ltd. (82.86), LupinLtd.(32.54) are higher than the CiplaLtd.(16.39) and Cadila Healthcare Ltd. (26.26) which indicates that Sun Pharmaceutical Industries Ltd., Piramal

Enterprise Ltd. and LupinLtd. companies are less consistency compare to CiplaLtd. and Cadila Healthcare Ltd..

Liquidity Position Based On Absolute Liquid Ratio

The AbsoluteLiquid Ratio represents the cash in hand, cash at bank and short-term marketable security. Higher the absolute liquid ratio indicate that the firm in a position to pay its short term obligations when they become due.

Table: 3 Absolute Liquid Ratio

Year	Sun Pharmaceutical Industries Ltd.	Cadila Healthcare Ltd.	CiplaLtd.	Piramal Enterprise Ltd.	LupinLtd.
2008	0.98	0.05	0.06	0.09	0.39
2009	1.38	0.06	0.04	0.04	0.01
2010	0.15	0.05	0.05	0.03	0.05
2011	1.7	0.07	0.07	2.03	0.04
2012	1.36	0.16	0.05	0.01	0.02
2013	0.39	0.14	0.08	0.02	0.02
2014	0.08	0.11	0.03	0.02	0.11
2015	0.08	0.11	0.04	0.04	0.04
2016	0.04	0.14	0.03	0.06	0.02
2017	0.03	0.01	0.03	0.16	0.09
Mean	0.62	0.09	0.05	0.25	0.08
Standard deviation	0.66	0.05	0.02	0.63	0.11
Coefficient of Variation	106.45	55.56	40.00	252.00	137.50

Source: Computed from compiled data

Table 3 shows absolute liquid ratio of select pharmaceutical companies in India. The absolute liquid ratio of Sun Pharmaceutical Industries Ltd. is in a sound absolute liquidity position for the year 2008, 2009, 2011 and 2012. The absolute liquid ratio is highest (1.38) in the year 2009 and it is lowest (0.03) in the year 2017. The rule of thumb of absolute liquid ratio is 1:2, whereas Sun Pharmaceutical Industries Ltd. is maintaining the absolute liquid ratio above the rule of thumb for the year 2008, 2009, 2011 and 2012 which shows sound liquid position to pay its short-term obligation. But it shows that the absolute liquid ratio is lower than the rule of thumb from the year 2013 to 2017. The lower the absolute liquid ratio is an indication that the Sun Pharmaceutical Industries Ltd. is not liquid sound for last five years. Which indicates

the firm not in a position to pay its short-term obligations in time as and when they become due.

The absolute liquid ratio of Cadila Healthcare Ltd. is not in a sound liquidity position for the study period. The rule of thumb of absolute liquid ratio is 1:2, whereas Cadila Healthcare Ltd. is maintaining the lower the liquid ratio is an indication that the Cadila Healthcare Ltd. is not liquid sound for the study period. Which indicates the firm not in a position to pay its short term obligations in time as and when they become due.

The absolute liquid ratio of Cipla Ltd. is not in a sound liquidity position for the study period. The rule of thumb of liquid ratio is 1:2, whereas Cadila Healthcare Ltd. is maintaining the absolute liquid ratio below the standard rule. It indicates that the Cipla Ltd. not in a sound liquid position to pay its short-term obligations in time as and when they become due.

The absolute liquid ratio of Piramal enterprise Ltd. is not in a sound liquidity position except the year 2011. The rule of thumb of absolute liquid ratio is 1:2, whereas Piramal Enterprise Ltd. is maintaining the absolute liquid ratio below the rule of thumb except the year 2011 which shows Piramal Enterprise Ltd. is not in a sound liquid position to pay its short-term obligation in time as and when they become due.

The absolute liquid ratio of Lupin Ltd. is not in a sound liquidity position for the study period. The rule of thumb of liquid ratio is 1:2, whereas Lupin Ltd. is maintaining the absolute liquid ratio below the rule of thumb for the study period. It indicates that Lupin Ltd. is not in a sound liquid position to pay its short-term obligation in time as and when they become due.

Coefficient of variation of absolute liquid ratio of Piramal Enterprise Ltd. (252.00), Lupin Ltd. (137.50) Sun Pharmaceutical Industries Ltd. (106.45), are too higher than the CiplaLtd. (40.00) and Cadila Healthcare Ltd. (55.56) which indicates that Piramal Enterprise Ltd. and Lupin Ltd., Sun Pharmaceutical Industries Ltd. companies are less consistency compare to CiplaLtd. And Cadila Healthcare Ltd..

Conclusions

The study first attempts to analyze the liquidity and short-term solvency position of the select pharmaceutical companies in India, in terms of current ratio, liquid ratio and absolute liquid ratio. The study found that current ratio of Sun Pharmaceutical Industries Ltd., is less than standard norms 2:1 for three years, and Cadila Healthcare Ltd. is less than the rule thumb for the last one year. It indicates that these two firms are not maintaining adequate current assets

in the business. So these companies have to improve the current assets. Cipla Ltd., Piramal Enterprise Ltd. and Lupin Ltd. current ratios is more than the standard norms. It indicates that these companies are holding huge stock in the business and debtors are realized slowly. So these companies have to control inventory and should try to realize the debtors early.

The liquid ratio of sun pharmaceutical industries ltd. for four years, Cadila Healthcare Ltd. for six years and Piramal Enterprise Ltd. is less than the standard norms 1:1 for the study period except one year. It indicates that these firms are not maintaining sufficient debtors and liquid in the business. So these firms have to improve liquid assets. Whereas cipla ltd. and lupin ltd. are maintaining higher liquid ratio compare to the standard norms. It indicates that the firms are failed to collect debtors in time. So the firms have to concentrate ondebtor's collection period.

The absolute liquid ratio of all the select pharmaceutical companies is less than the standard norms 0.5:1 or 1:2. It indicates that all the firms have not maintaining sufficient cash in the business. The lesser the absolute liquid ratio will create the financial crunch in the business and it may create difficulties in day to day working capital. So, all the select pharmaceutical companies should improve the liquidity position to sustain in the competitive world.

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