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A Comparative Study of Liquidity of Selected Pharma Companies of Gujarat

KEYWORDS: Pharmaceutical, Liquidity, Financial Performance, India

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ABSTRACT *Indian pharmaceutical sector accounts for about 2.4 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms and is expected to expand at a Compound Annual Growth Rate (CAGR) of 15.92 per cent to US$ 55 billion by 2020 from US$ 20 billion in 2015. With 71 per cent market share, generic drugs form the largest segment of the Indian pharmaceutical sector. By 2016, India is expected to be the third-largest global generic Active Pharmaceutical Ingredient (API) merchant market. The country accounts for the second largest number of Abbreviated New Drug Applications (ANDAs) and is the world's leader in Drug Master Files (DMFs) applications with the US.*

This study has been undertaken for critical assessment of pharmaceutical industry of India. The study period is of ten years from 2004-05 to 2013-14 to analyse the LIQUIDITY performance of leading pharmaceutical companies and comparison amongst them.

INTRODUCTION

Indian pharmaceutical sector accounts for about 2.4 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms and is expected to expand at a Compound Annual Growth Rate (CAGR) of 15.92 per cent to US$ 55 billion by 2020 from US$ 20 billion in 2015.

With 71 per cent market share, generic drugs form the largest segment of the Indian pharmaceutical sector. By 2016, India is expected to be the third-largest global generic Active Pharmaceutical Ingredient (API) merchant market. The country accounts for the second largest number of Abbreviated New Drug Applications (ANDAs) and is the world's leader in Drug Master Files (DMFs) applications with the US.

Indian drugs are exported to more than 200 countries in the world, with the US as the key market. Generic drugs account for 20 per cent of global exports in terms of volume, making the country the largest provider of generic medicines globally and expected to expand even further in coming years. Pharmaceuticals Exports Promotion Council (Pharmexcil) expects pharmaceutical exports to reach US$ 25 billion in 2015.

The Government of India plans to set up a US$ 640 million venture capital fund to boost drug discovery and strengthen pharmaceutical infrastructure. The 'Pharma Vision 2020' by the government's Department of Pharmaceuticals aims to make India a major hub for end-to-end drug discovery.

MARKET SIZE

Domestic pharmaceutical market grew at a CAGR of 12 per cent year-on-year in February 2016, broadly in line with the average of 12.9 per cent since April 2015. Indian pharmaceutical firms are eyeing acquisition opportunities in Japan's growing generic market as the Japanese government aims to increase the penetration of generic drugs to 60 per cent of the market by 2017 from 30 per cent in 2014, due to ageing population and rising health costs.

India has the largest number US FDA compliant plants. The industry is expected to reach US$ 55 million by 2020, out of which US$ 30 million will be for exports.

India's biotechnology industry comprising bio-pharmaceuticals, bio-services, bio-agriculture, bio-industry and bioinformatics is expected grow at an average growth rate of around 30 per cent a year and reach US$ 100 billion by 2025. Biopharma, comprising vaccines, therapeutics and diagnostics, is the largest sub-sector contributing nearly 62 per cent of the total revenues at Rs 12,600 crore (US$ 1.9 billion).

GOVERNMENT INITIATIVES

The Addendum 2015 of the Indian Pharmacopoeia (IP) 2014, published by the Indian Pharmacopoeia Commission (IPC) on behalf of the Ministry of Health & Family Welfare, is expected to play a significant role in enhancing the quality of medicines that would in turn promote public health and accelerate the growth and development of pharmaceutical sector.

The Government of India unveiled 'Pharma Vision 2020' aimed at making India a global leader in end-to-end drug manufacture. Approval time for new facilities has been reduced to boost investments. Further, the government introduced mechanisms such as the Drug Price Control Order and the National Pharmaceutical Pricing Authority to deal with the issue of affordability and availability of medicines.

Some of the major initiatives taken by the government to promote the pharmaceutical sector in India are as follows:

- Indian Pharmaceutical Association (IPA), the professional association of pharmaceutical companies in India, plans to prepare data integrity guidelines which will help to measure and benchmark the quality of Indian companies with global peers.
- The Government of India plans to incentivise bulk drug manufacturers, including both state-run and private companies, to encourage 'Make in India' pro-

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gramme and reduce dependence on imports of active pharmaceutical ingredients (API), nearly 85 per cent of which come from China.

- The Department of Pharmaceuticals has set up an inter-ministerial co-ordination committee, which would periodically review, coordinate and facilitate the resolution of the issues and constraints faced by the Indian pharmaceutical companies.
- The Department of Pharmaceuticals has planned to launch a venture capital fund of Rs 1,000 crore (US$ 154 million) to support start-ups in the research and development in the pharmaceutical and biotech industry.
- Indian and global companies have expressed 175 investment intentions worth Rs 1,000 crore (US$ 146.72million) in the pharmaceutical sector of Gujarat. The memorandums of understanding (MoUs) would be signed during the Vibrant Gujarat Summit.
- Telangana has proposed to set up India's largest integrated pharmaceutical city spread over 11,000 acres near Hyderabad, complete with effluent treatment plants and a township for employees, in a bid to attract investment of Rs 30,000 crore (US$ 4.41 billion) in phases. Hyderabad, which is known as the bulk drug capital of India, accounts for nearly a fifth of India's exports of drugs, which stood at Rs 95,000 crore (US$ 13.94 billion) in 2014-15.
- At the launch of Cluster Development Programme of pharmaceutical sector, MrAnanth Kumar, Minister of Fertiliser and Chemicals, announced that six pharmaceutical parks will be approved and established this year which will have sufficient infrastructure and facilities for testing and treatment of drugs and also for imparting training to industry professionals.

ROAD AHEAD

The Indian pharmaceutical market size is expected to grow to US$ 100 billion by 2025, driven by increasing consumer spending, rapid urbanisation, and raising healthcare insurance among others.

Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers that are on the rise.

The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

Exchange Rate Used: INR 1 = US$ 0.0147 as on March 01, 2016

LITERATURE REVIEW

The analysis of Liquidity of Pharmaceutical Industry of India is a particular area of work hence not a very popular matter to write on. There are number of articles and research papers published for Liquidity and for Pharmaceutical Industry of India but nothing is specifically of relevance for the present study.

The present study is a unique work of research which is for selected companies understudy and for a specified period. There are some technical points included apart from the financial research. These are TRIPS, WTO, Patent Regime, various national and international pharmaceutical manufactures' association.

The work of Keshab Das on TRIPS and its political implication has been referred bythe researcher to get the insights into the matter. Professor Robert Tancer has worked on Indian Pharmaceutical Industry as an investment destination. Robert Warren has worked for the pharmaceutical industry.

Similar sort of work has been carried out in the same university before a long time period of 16 years. The study was emphasized on the working capital management, entitled "Working Capital Management of Pharmaceutical Industry in India" byDr. Shashi A. Jain in the year 1990. The study tried to make an in-depth analysis of the working capital management of the selected pharmaceutical companies for a period of time.

Another major research work has been carried out in the year 1992 byDr.Akhileshwar Sharma on the topic "Profitability Analysis of Drugs and Pharmaceutical Companies in India" in May 1992. This study tried to find out the profitability position of various selected units during that period of time using several criteria.

But the above work were carried out in the scenario when economy was in a closed state. The steps for liberalization by privatisation and globalisation were initiated by then Prime Minister of India Lt. Shri Narsimha Rao, and afterwards a gradual shift was found in the entire economy of India.

With the WTO agreement and de-regulation of prices and the implementation of Patent Act there is a dramatic change observed in the pharmaceutical industry of India which makes the background for the study.

There are lot of information available about the industry at national and international level from the Internet and it can be accessed through various search engines.

RESEARCH OBJECTIVE

1. To identify any relationship in-between companies in the various measures of liquidity
2. To study the pharmaceutical industry of India
3. To study various ways to measure the liquidity of selected pharmaceutical companies of Gujarat.

RESEARCH METHODOLOGY

SOURCES OF DATA

Secondary sources of data will be utilised for this proposed research study

Secondary data have been collected from Company Annual Reports.

UNIVERSE

In the research study selected 14Pharmaceutical companies.

PERIOD OF DATA COVERAGE

Ten years of financial statements will be analysed for Pharmaceutical companies taken under study.

ANALYSIS OF DATA

The proposed statistical tools for the analysis of data are ratio analysis and ANOVA test.Current Ratio and Quick Ratio are used to analyse the performance of companies selected for the proposed research study.

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ANALYSIS
CURRENT RATIO

CURRENT RATIO										
YEAR→	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05
COMPANY NAME↓										
Alembic Ltd	1.05	0.81	0.74	0.87	1.08	1.02	1.01	0.92	1.02	0.94
Ambalal Sarabhai Enterprises Limited	0.25	0.31	0.44	0.64	0.67	0.56	0.68	0.66	0.82	0.80
Cadila Healthcare Ltd	1.20	1.03	1.15	1.29	1.21	1.03	0.98	1.00	0.98	0.91
Coral Laboratories Limited	3.91	2.39	2.42	2.12	1.19	1.03	1.24	1.13	1.39	1.01
Dishman Pharmaceuticals & Chemicals Limited	1.01	0.93	0.94	0.77	1.20	1.24	1.05	1.09	2.10	1.05
Gujarat Terce Laboratories Ltd.	1.62	1.78	3.91	1.63	2.61	2.84	2.46	2.53	1.83	2.24
Gujarat Themis Biosyn Limited	0.28	0.23	0.29	0.12	0.14	0.10	0.12	0.15	0.51	0.58
Lincoln Pharmaceuticals Limited	1.10	0.99	0.96	1.09	1.15	1.23	1.23	1.37	1.38	1.31
Sun Pharma Advanced Research Company Limited.	2.77	0.48	0.17	0.33	0.34	0.45	1.68	4.55	15.15	N.A.
Sun Pharmaceuticals Industries Ltd	0.79	2.31	2.68	3.09	2.14	2.53	2.52	5.57	5.23	4.78
Themis Medicare Limited	0.66	0.65	0.54	0.78	0.73	0.81	0.89	0.91	0.75	0.91
Torrent Pharmaceuticals Limited	2.02	1.59	1.39	1.53	1.51	1.66	1.42	1.65	1.77	1.25
Unjha Formulations Ltd.	0.75	0.65	0.52	1.34	2.08	1.61	4.48	4.35	3.95	9.10
Zenith Health Care Ltd.	5.97	6.48	8.16	9.25	7.57	10.38	12.06	9.13	11.56	11.05

Current ratio helps to measure the ability of company to meet its current debt. From the above tables and charts it can be concluded that Gujarat based Pharma companies have lower current ratios compare to previous years. Such values of current ratios giving conclusion that Pharma companies have more current assets to meet current debt in earlier years than in current years. In year 2006 Pharma companies have highest current ratio followed by year 2005, 2007. Year 2013 stood last with lowest current ratio.

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	632.65168	13	48.665514	18.660051	1.94E-23	1.7992187
Within Groups	326.00068	125	2.6080054			
Total	958.65236	138				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Current Ratio of selected pharmaceutical companies.

QUICK RATIO

QUICK RATIO										
YEAR→	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05
COMPANY NAME↓										
Alembic Ltd	0.49	0.28	0.84	0.89	1.10	1.34	1.40	2.06	1.15	1.06
Ambalal Sarabhai Enterprises Limited	0.35	0.40	0.42	0.66	0.63	0.49	0.76	0.77	0.87	0.82
Cadila Healthcare Ltd	1.18	1.40	1.14	1.03	0.97	1.06	0.95	0.82	0.86	0.64
Coral Laboratories Limited	3.23	1.95	1.80	1.11	0.92	0.71	0.79	0.69	0.91	0.66
Dishman Pharmaceuticals & Chemicals Limited	1.57	1.43	1.21	1.38	2.07	2.27	1.88	1.55	3.78	1.90
Gujarat Terce Laboratories Ltd.	2.44	2.01	2.90	1.28	1.89	1.72	1.73	1.88	1.46	1.91
Gujarat Themis Biosyn Limited	0.33	0.31	0.26	0.21	0.33	0.35	0.44	0.41	1.19	1.48
Lincoln Pharmaceuticals Limited	2.19	2.25	2.00	2.49	2.18	1.77	1.82	2.23	2.38	2.13

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Sun Pharma Advanced Research Company Limited.	2.82	2.29	0.20	0.13	0.13	0.11	1.70	4.55	15.15	N.A.
Sun Pharmaceuticals Industries Ltd	1.03	1.82	2.33	2.74	1.52	2.17	2.27	5.25	5.04	5.07
Themis Medicare Limited	0.80	0.90	1.07	1.40	1.40	1.29	1.47	1.11	1.28	1.57
Torrent Pharmaceuticals Limited	1.81	1.24	1.25	1.39	1.65	1.57	1.22	1.06	1.01	0.59
Unjha Formulations Ltd.	0.55	0.49	0.49	1.21	1.33	1.16	3.81	3.33	2.24	7.28
Zenith Health Care Ltd.	4.53	5.30	6.67	7.63	6.23	8.48	9.63	7.55	9.94	9.54

Quick ratio helps to measure the ability of company to meet its short-term obligations with its most liquid assets. Similar to Current ratio and from the above tables and charts it can be concluded that Gujarat based Pharma companies have lower quick ratios compare to previous years. Such values of quick ratios giving result that Pharma companies have more liquid assets to meet shirt-term obligation in previous years than in current years. In year 2006 Pharma companies have highest quick ratio followed by year 2005, 2007. Year 2013 stood last with lowest current ratio. Zenith Health Care Ltd has highest quick ratio whereas Gujarat Themis Biosyn Limited has lowest quick ratio.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	398.32732	13	30.640563	12.756217	2.018E-17	1.7992187
Within Groups	300.25128	125	2.4020102			
Total	698.5786	138				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Quick Ratio of selected pharmaceutical companies

CONCLUSION

From the above data analysis table; it can be concluded that Gujarat based Pharmaceutical companies have lower current ratios compare to previous years. Such values of current ratios giving conclusion that Pharmaceutical companies have more current assets to meet current debt in earlier years than in current years. In year 2006 Pharmaceutical companies have highest current ratio followed by year 2005, 2007. Year 2013 stood last with lowest current ratio. Gujarat based Pharmaceutical companies have lower quick ratios compare to previous years. Such values of quick ratios giving result that Pharmaceutical companies have more liquid assets to meet shirt-term obligation in previous years than in current years. In year 2006 Pharmaceutical companies have highest quick ratio followed by year 2005, 2007. Year 2013 stood last with lowest current ratio. Zenith Health Care Ltd has highest quick ratio whereas Gujarat Themis Biosyn Limited has lowest quick ratio.Difference is seen in Current Ratio of selected pharmaceutical companies. Difference is seen in Quick Ratio of selected pharmaceutical companies

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