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A study on Financial Indicators of selected Pharmaceutical Companies

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Abstract

The aim of this study is to analyses financial ratios. This study covers four different ratios; net profit margin ratio, return on assets ratio, current ratio and quick ratio as financial indicators. This study is based on secondary data and data are collected from moneycontrol.com. Researcher has selected two pharmaceuticals' companies by using simple random sampling. Independent t-test has been used as a statistical tool and findings were discussed.

Introduction

India enjoys a key position in the worldwide pharmaceutical sector. This sector provides 50% of global demand for various vaccine and 25% of all medicine in United Kingdom. Indian Pharmaceutical industry has produced 14th rank in value and 3rd in volume. According to current data, home market is anticipated to grow 3X in next decades. In 2021 market size of this sector was estimated US$42 billion. India is the 12th largest exporter of medical goods (Kimbowa et al, 2022; Prasad et al, 2019; Cha et al, 2018).

Abdulkareem (2020) conducted a study on analysis of leverage and cost of capital of pharmaceutical companies. Purpose of this study was analysed degree of leverage and its impact on cost of capital. Five pharmaceutical companies are randomly selected as a sample. One-way ANOVA was used to test the result. The study was found that a significant difference.

Selvam (2020) analysed Leverage analysis of Aurobindo Pharma. Objective of that study was to analyse the three different leverages and its effect on earnings per share (EPS). 10 years study periods are cover to analyse the data. Correlation is used as a tool. The major findings of the study was financial leverage is positively correlated with ROI (McWilliams et al, 2018; Brax et al, 2017)

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Ahamed (2020) analysed financial performance of pharmaceutical companies by using DuPont analysis. Aim of this study was to check the impact of return on equity on component of DuPont model. Different ratios and one-way ANOVA were used. Researcher was selected six pharmaceutical companies. The study found out that no selected samples are able to maintain good profit margin during the study period.

Methods

This study is based on secondary data. Data are collected from websites. Two Pharmaceutical companies are selected by using lottery method. Study period is started from 2017 to 2021. Four financial ratios and independent t-test is used a tool.

Data Analysis

Table 1. Net Profit Margin Ratio

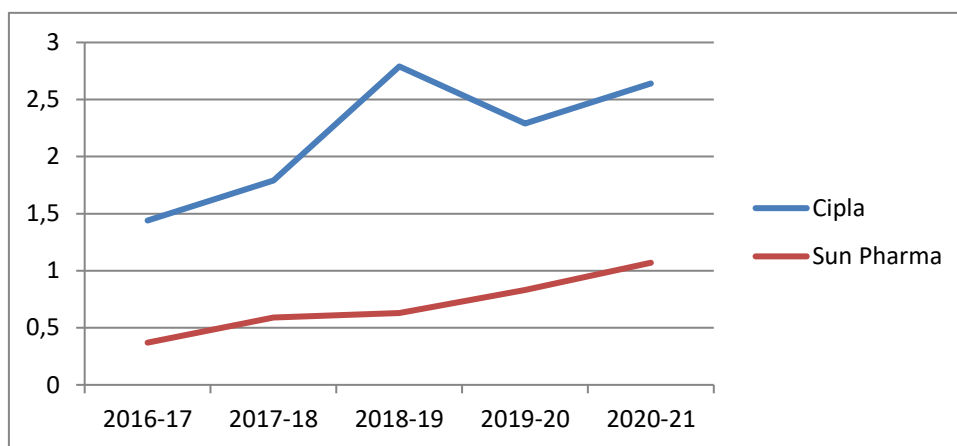| Year	Cipla	Sun Pharma
2017	9.05	-0.29
2018	12.89	3.39
2019	15.26	7.92
2020	18.31	25.62
2021	17.75	16.71

Sources: moneycontrol.com

Figure 1. Net Profit Margin Ratio

From the above table and chart showing that the NP margin ratio of Cipla and Sunpharma Ltd. Net profut margin ratio of Cipla Ltd was in incresing trend but it was down in 2021 as compare to previous and it was higher in the year 2020 that is 18.31. In Sunpharma ltd the higher net profit margin ratio was 25.62 in the year 2020 and it was decrese in 2021 up to 16.71. Avaveg ratio of cipla ltd was higher than sunpharma.

Table 2. t-test on Net profit margin ratio

Particular	Variable 1	Variable 2
Mean	14.652	10.67
Variance	14.45882	110.1667
Observations	5	5
Df	8	
t Stat	0.797596	
t Critical two-tail	2.306004	

The calculation value of t- test was 0.795 was lower than table value 2.30, it means null hypothesis H0 was accepted. There is no significant difference in Net profit margin ratio of Cipla Ltd and Sunpharma Ltd at 5% level of significance.

Table 3. Return on Assets Ratio

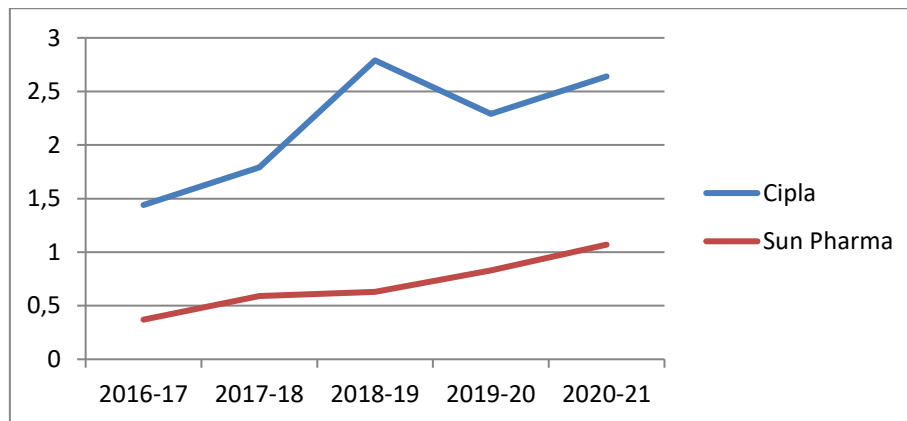| Year	Cipla	Sun Pharma
2017	6.24	-0.06
2018	8.59	0.83
2019	10.25	2.16
2020	11.36	8.36
2021	10.74	5.48

Sources: moneycontrol.com

Figure 2. Return on assets Ratio

From the above table and chart shown return on assets ratio of Cipla and Sun Pharma Ltd. The highest ratio was 11.36 and 8.36 in the year 2020 in both companies respectively. The lowest ratio was 6.24 of Cipla Ltd in the year 2017 and -0.06 of Sun Pharma Ltd in the year 2017. Average return on assets ratio of Cipla Ltd 9.436 was higher than 3.354 of Sun Pharma Ltd.

Table. 4 t-test on return on assets ratio

Particular	Variable 1	Variable 2
Mean	9.436	3.354
Variance	4.24873	12.25788
Observations	5	5
Df	8	
t Stat	3.34736	
t Critical two-tail	2.306004	

The calculation value of t- test was 3.347 was higher than table value 2.30, it means null hypothesis H0 was rejected. There is significant difference in return on assets ratio of Cipla Ltd and Sunpharma Ltd at 5% level of significance.

Table 5. Current Ratio

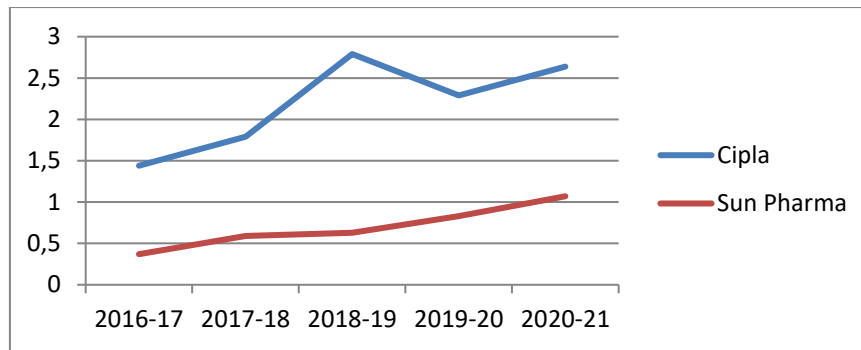| Year	Cipla	Sun Pharma
2017	2.48	0.58
2018	2.91	0.76
2019	4.00	0.84
2020	3.45	1.07
2021	3.79	1.45

Sources: Moneycontrol.com

Figure 3. Current Ratio

From the above table and chart clear that current ratio of Cipla and Sun Pharma Ltd. In all selected year current ratio of Cipla Ltd was higher than Sun Pharma. The average current ratio of Cipla Ltd 3.326 was higher than 0.94 Sun Pharma Ltd. It means the average liquidity performance of Cipla Ltd was overall good.

Table 6. t-test on current ratio

Particular	Variable 1	Variable 2
Mean	3.326	0.94
Variance	0.39343	0.11225
Observations	5	5
Df	8	
t Stat	7.5027	
t Critical two-tail	2.306004	

The calculation value of t- test was 7.5027 was higher than table value 2.30, it means null hypothesis H0 was rejected. There is significant difference in current ratio of Cipla Ltd and Sunpharma Ltd at 5% level of significance.

Table 7. Quick Ratio

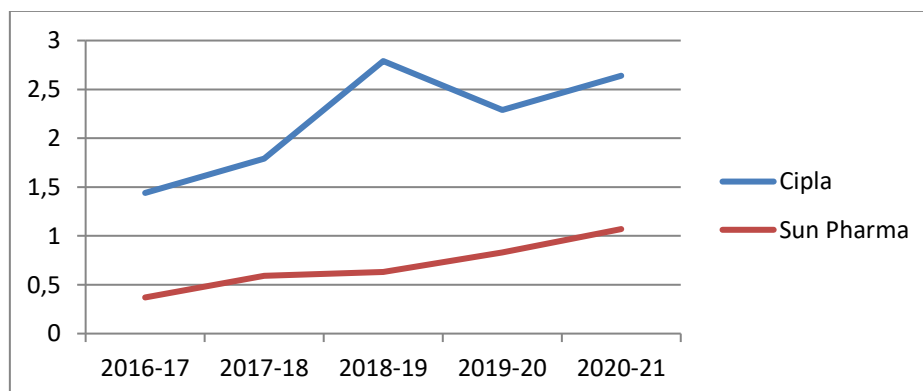| Year	Cipla	Sun Pharma
2017	1.44	0.37
2018	1.79	0.59
2019	2.79	0.63
2020	2.29	0.83
2021	2.64	1.07

Sources: Moneycontro.com

Figure 4. Quick Ratio

The above table shown quick ratio of Cipla and Sun Pharma Ltd. Quick Ratio of Cipla Ltd was in the Fluctuated trend but in Sun Pharma it was an increasing trend. All selected

financial years the overall performance of Cipla Ltd was better as compare to Sun Pharma Ltd.

Table. 8 t-test on quick ratio

Particular	Variable 1	Variable 2
Mean	2.19	0.698
Variance	0.32375	0.06992
Observations	5	5
Df	8	
t Stat	5.317257	
t Critical two-tail	2.306004	

The calculation value of t- test was 5.317 was higher than table value 2.30, it means null hypothesis H0 was rejected. There is significant difference in Quick ratio of Cipla Ltd and Sunpharma Ltd at 5% level of significance.

Conclusion

This research paper was based on the financial indicators of Cipla Ltd and Sun Pharma Ltd. The overall performance of Cipla Ltd was better as compare to Sun Pharma Ltd. Liquidity position of sun Pharma Ltd was also poor. The significant difference of the study was found in the entire selected ratio except Net Profit Margin Ratio. The null hypothesis was accepted in only Net profit margin ratio.

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