



An analytical study on key financial ratios of selected pharmaceutical companies in India

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Abstract

The main objective of this study is to know the performance of selected companies. In this study researcher has selected two samples; Dr. Reddy's laboratory Ltd and Cipla Ltd. For the selection of sampling researcher used judgmental sampling technique. This study is limited with five financial years started from 2019-20 to 2023-24. For analyzing the result research used independent t-test as a statistical tool.

Keywords: Financial ratio, pharmaceutical sector, profitability analysis, liquidity analysis

Introduction

The modern era of the pharmaceutical industry began with local apothecaries that expanded their traditional role of distributing botanical drugs such as morphine and quinine to wholesale manufacture in the mid-1800s. The pharmaceutical industry is a medical industry that discovers, develops, produces, and markets pharmaceutical goods such as medications and medical devices. This sector may deal in generic drugs, branded drugs, or both, within different contexts. Generic materials are without the involvement of intellectual property, whereas branded materials are protected by chemical patents. The global pharmaceutical market produced treatments worth a total of \$1,228.45 billion in 2020. The sector showed a compound annual growth rate (CAGR) of 1.8% in 2021, including the effects of the COVID-19 pandemic.

Review of Literature

(Gowsalya, 2017) [2] has analysed financial performance with specific objective was to evaluate current performance. Data are used by researcher was comparative balance sheet, common size balance sheet, comparative balance sheet analysis. The researcher found that the company can concentrate on their increasing the level of the current asset. So the company improves this financial position. (Abdulkareem, 2020) [1] the main aim of this study to know the degree of leverage and cost of capital of selected

companies. Five companies are selected with five financial years. For proven the hypothesis researcher has used one-way ANOVA as a statistical tool. The major finding of the study was result of all leverage were different and also cost of capital. It means researcher found that significant differences.

Objectives of the study

To examine the Net Profit margin and Return on capital employed ratio of selected companies that is Dr, Reddy's lab and Cipla Ltd.

To know the current ratios of selected pharmaceutical companies.

To compare that which company is performing best.

Hypothesis of study

There is no significant difference between Net profit margin ratio of Dr. Reddy's lab and Cipla Ltd @ 5% level of significance.

There is no significant difference between Return on capital employed ratio of Dr. Reddy's lab and Cipla Ltd @ 5% level of significance.

There is no significant difference between current ratio of Dr. Reddy's lab and Cipla ltd. @ 5% level of significance.

Research Methodology

Table 1: Showing Research Methodology of the study.

Types of Research	Analytical study
Types of Data	Secondary data
Period of Study	2019-20 to 2023-24
Data Collection	www.moneycontrol.com
Statistical tool	Independent t-test
Accounting tools	Net profit Margin Return on capital employed Current ratio

Result and Discussion

Net Profit Margin Ratio

Table 2: Showing Net Profit Margin ratio of selected Companies

Years	Dr. Reddy's lab	Cipla
2019-20	24.78	18.31
2020-21	16.37	17.75
2021-22	11.26	22.59
2022-23	15.4	15.91
2023-24	22.28	24.59
Average	18.018	19.83

(Sources: www.moneycontrol.com)

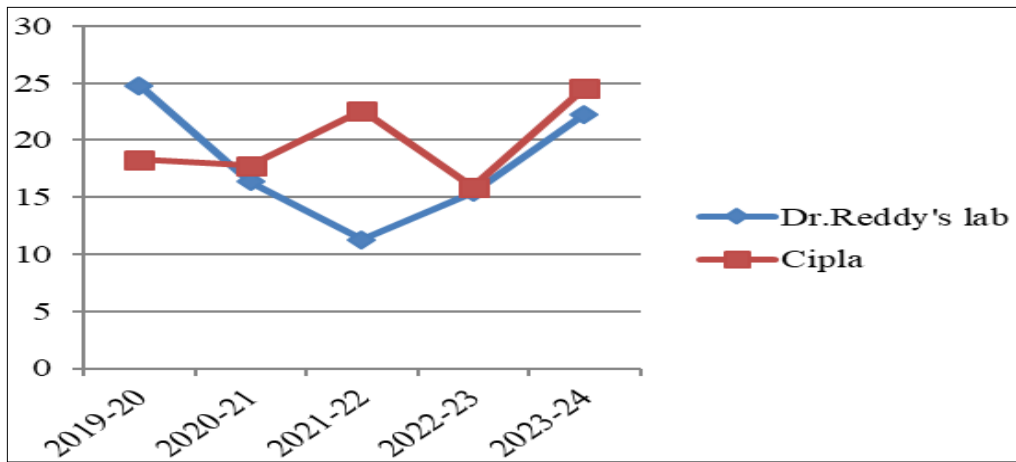


Fig 1: Showing Net Profit margin Ratio of Dr. Reddy’s lab and Cipla

Interpretation

From the above table and figure shown that Net profit margin Ratio of Dr. Reddy’s Lab and Cipla Ltd. In both the company data was fluctuated during study period. The Net Profit ratio of Dr. Reddy’s lab was decreasing up to first three years but last two years it was started to increase. The

highest NPM ratio was in 2019-20 that was 24.78 and lowest was 11.26 in the year 2021-22. In the Cipla Ltd higher NPM ratio was 24.59 in the year 2023-24 and lower was 15.91 in the year 2022-23. The average NPM ratio was higher in Cipla Ltd as compare to Dr. Reddy’s lab.

Table 3: showing Independent t -Test: Two-Sample Assuming Equal Variances

Particular	Dr. Reddy's lab	Cipla
Mean	18.018	19.83
Variance	29.78242	13.0696
Observations	5	5
Df	8	
t Stat	-0.61895	
P(T<=t) two-tail	0.55316	
t Critical two-tail	2.306004	

Interpretation

From the above table shown that the result of independent t-test of net profit margin ratio. The calculated value was 0.55 is lower than table value 2.31. The null hypothesis was accepted at 5% level of significance. It means there is no

significant difference between NPM ratio of Dr. Reddy’s lab and Cipla Ltd.

Return on Capital Employed

Table 4: Showing Return on Capital Employed ratio of selected Companies

Years	Dr. Reddy's lab	Cipla
2019-20	18.46	16.86
2020-21	18.17	16.75
2021-22	12.25	15.72
2022-23	18.54	14.67
2023-24	23.41	17.61
Average	18.166	16.322

(Sources: www.moneycontrol.com)

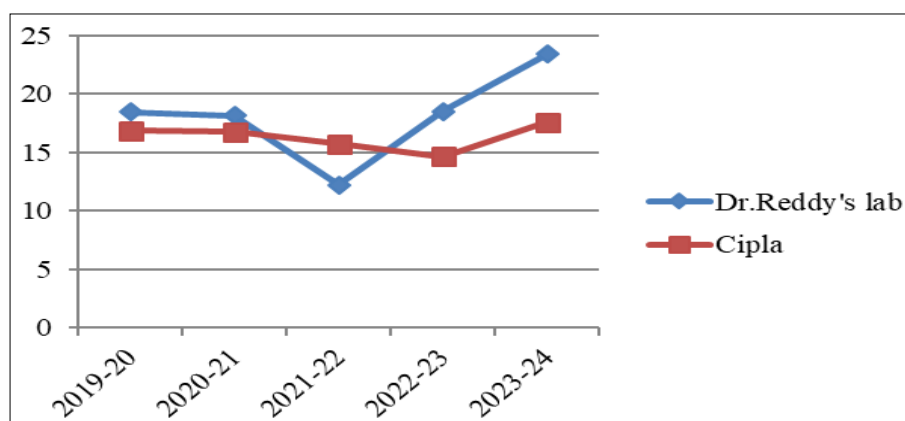


Fig 2: showing Return on Capital Employed Ratio of Dr. Reddy’s lab and Cipla

Interpretation

From the above table and figure shown that Return on Capital employed Ratio of Dr. Reddy’s Lab and Cipla Ltd. The average return on capital employed ratio was higher in Dr. Reddy’s Lab than Cipla Ltd. In both the company data

was fluctuated. In Dr. Reddy’s lab highest RCE ratio was 23.41 in year 2023-24; and lowest in the year 2021-22 and it was 12.25. In the Cipla Ltd. the highest RCE ratio 17.61 in the year 2023-24 and lowest were 14.67 in the year 2022-23.

Table 5: showing Independent t -Test: Two-Sample Assuming Unequal Variances

Particulars	Dr. Reddy’s lab	Cipla
Mean	18.166	16.322
Variance	15.68123	1.30577
Observations	5	5
Df	5	
t Stat	1.000432	
P(T<=t) two-tail	0.363028	
t Critical two-tail	2.570582	

From the above table shown that the result of independent t-test of RCE ratio. The calculated value was 0.36 is lower than table value 2.57. The null hypothesis was accepted at 5% level of significance. It means there is no significant

difference between RCE ratio of Dr. Reddy’s lab and Cipla Ltd.

Current Ratio

Table 6: Showing Current ratio of selected Companies

Years	Dr. Reddy’s lab	Cipla
2019-20	2.42	3.45
2020-21	2.4	3.79
2021-22	2.23	4.41
2022-23	3.11	4.95
2023-24	3.22	5.21
Average	2.676	4.362

(Sources: www.moneycontrol.com)

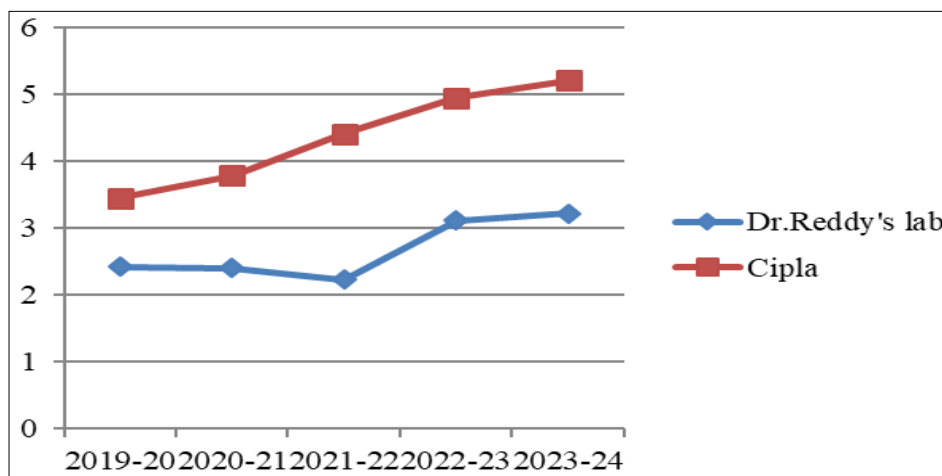


Fig 3: showing Current Ratio of Dr. Reddy’s lab and Cipla

Interpretation:

From the above table and figure shown that Current Ratio of Dr. Reddy’s Lab and Cipla Ltd. current ratio of Dr. Reddy’s Lab was decrease first three years but it comes to increase in last two years. It means data of Dr. Reddy’s Lab was

fluctuated trend. The highest ratio of 3.22 in last selected year and lowest was 2.23 in the year 2021-22. The data of Cipla Ltd was in increasing trend during the period of study. The highest was 5.21 in last year and 3.45 in first year. The average ratio was higher in Cipla Ltd.

Table 7: showing Independent t -Test: Two-Sample Assuming Equal Variances

Particular	Dr. Reddy’s lab	Cipla
Mean	2.676	4.362
Variance	0.20623	0.55652
Observations	5	5
df	8	
t Stat	-4.3167	
P(T<=t) two-tail	0.002557	
t Critical two-tail	2.306004	

Interpretation

From the above table shown that the result of independent t-test of current ratio. The calculated value was 0.0025 is lower than table value 2.31. The null hypothesis was accepted at 5% level of significance. It means there is no significant difference between current ratio of Dr. Reddy's lab and Cipla Ltd.

References

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