A STUDY ON FINANCIAL PERFORMANCE ANALYSIS IN PHARMACEUTICAL COMPANY

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ABSTRACT

The project on financial performance analysis of Pharmaceutical company has been a very good experience. Every manufacturing company faces the problem of cash and working capital management in their day to day process. An organization cost can be reduced and its profit can be increased only if it’s able to manage working capital efficiently. Accounting ratios are one of the important tools for financial analysis and decision making. It expresses relationship between two variables.

INTRODUCTION

Financial performance analysis includes analysis and interpretation of financial statements which helps to determine the profitability and financial soundness of the business. Thus, the term ‘financial statements’ include the following: a. Income Statement or Trading and Profit and Loss account b. Position Statement or Balance Sheet. The Balance Sheet shows the financial position of the firm at a given point of time. The Income Statement shows the performance of the firm over a period of time.

NEED FOR THE STUDY

- To ascertain short-term liquidity position by the application of various liquidity ratios.
- To evaluate the long-term solvency position by using various solvency ratios;
- To evaluate the efficiency of the firm for utilization of proper financial resources.

SCOPE OF THE STUDY

- The study helps to evaluate the decision making with regard to the financial performance of the company.
- The study helps to improve the operating efficiency of the company.
- The study is carried out with the help of five years financial statement of the Pharmaceutical Company.
- The study helps to improve the profitability of the company by reducing the cost.

OBJECTIVES OF THE STUDY

- To determine the liquidity of the company.
- To analyze the profitability of the firm.
- To assess the operational efficiency of the company.
- To study the management of working capital for the period of previous 5 years.

REVIEW OF LITERATURE

Venkataramana and Ramakrishnan (2012): Analyzed the profitability and financial position of selected cement companies in India through various financial ratio and applied correlation, standard deviation, mean and variance. The study uses profitability and liquidity ratios for assessment of impact of liquidity ratios on profitability performance of selected cement companies.

According to **Sandhar et.al (2013)** in his study of selected Indian cement companies ,the relationship between liquidity and profitability using regression analysis revealed that liquid ratio and current ratio are negatively associated with return on assets , return on investment and cash turnover ratio is negatively associated with return on investment and return on asset.

Ashok Kumar (2013) studied for 10 years about the liquidity position of five leading companies for the period covering from 2000-2010. From the study conducted, he found that liquidity position of small companies was better when it was compared to big ones. And at last he concluded that companies should maintain an ideal liquid and current ratio.

Mohmad and Dr. Syed (2016) analyzed the profitability and liquidity of selected companies and more specifically it seeked the comparison between the profitability and liquidity performance of selected companies. On the basis of Quick Ratio, there was a significant between performance of pharmaceutical company. In terms of profitability the performance of Cipla was better than Dr.Reddy's lab.

LIQUIDITY RATIOS

i. **Current Ratio**

The current ratio measures the **ability of an entity to meet its current liabilities** as and when they are due for payment.

Current Ratio = Current assets / Current Liabilities

ii. **Quick Ratio**

The quick ratio is an indicator of a **company's short-term liquidity position** and indicates whether the business concern is in a position to pay its current liabilities out of its quick assets.

Quick Ratio = Quick assets / Current Liabilities

iii. **Cash Ratio**

The cash ratio **shows the company's ability to cover its short-term obligations using cash and cash equivalents**.

Cash Ratio = Cash and cash equivalents / Current Liabilities

PROFITABILITY RATIOS

i. **Gross Profit Ratio**

Gross profit ratio (GP ratio) shows the margin of profit available out of revenue from operations.

Gross Profit Ratio = Gross profit / Revenue from operations *100

ii. **Net Profit Ratio**

Net profit is the percentage of net profit on revenue from operations. It is an indicator of the overall profitability of the business. .

Net Profit Ratio = Net Profit / Revenue from operations *100

iii. **Return on investment Ratio**

Return on investment (ROI) is an overall measure of profitability of a business concern.

Return on Investment Ratio = Net profit after taxes / Shareholders fund * 100

TURNOVER RATIOS

i. **Working Capital Turnover Ratio**

Working Capital Turnover Ratio is an efficiency ratio that indicates how the company uses its working capital to support sales and help in the growth of the business.

Working Capital Turnover Ratio = Net Revenue from operations / Net Working Capital

ii. **Inventory Turnover Ratio**

The **inventory turnover** indicates the number of times inventory is turned over to make revenue from operations during a particular accounting period. It is a comparison of cost of revenue from operations with average amount of inventory.

Inventory Turnover Ratio =Cost of Revenue from operations / Average Inventory

iii. **Trade Receivables Turnover Ratio**

The accounts receivable turnover ratio, also known as the debtor's turnover ratio, is an efficiency ratio that **gives the velocity of collection of cash from trade receivables.**

Trade Receivables Turnover Ratio = Credit Revenue from operations / Average Trade Receivables

iv. **Trade Payables Turnover Ratio**

The accounts payable turnover ratio, also known as the payables turnover or the creditor's turnover ratio, is a liquidity ratio that **gives the velocity of payment of cash towards trade payables**.

Trade Payables Turnover Ratio = Credit Purchases / Average Trade Payables

CAPITAL STRUCTURE RATIOS

i. Debt-Equity Ratio

Debt-to-equity (D/E) ratio is used to **assess the long term solvency position of a business concern.** Debt Equity ratio expresses the relationship between long term debt and shareholders fund.

Debt-Equity Ratio = Long term Debt / Shareholders equity

ii. Return on Equity Ratio

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' fund.

Return on Equity Ratio = Net Profit After Taxes / Average Shareholders Equity

SUGGESTIONS

- Though the company has the highest Current Ratio in the year 2022, the Company has to maintain the ideal ratio of 2:1 which means the current assets should be double the current liabilities.
- Though the company has the highest Quick Ratio in the year 2022, the company has to maintain the ideal ratio of 1:1 which means the company should have the equal amount of liquid assets as current liabilities.
- There is a decrease in Gross Profit Ratio in the year 2022, hence the company should work on increasing the gross profit ratio.
- In the case of cash ratio the company has not maintained the standard ratio of 0.5:1 in any of the previous years. Hence the company should increase the cash ratio for the future period.

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