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Financial Performance of Pharmaceutical Companies Through Current Ratio Analysis

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Abstract
This study evaluates the financial performance of selected pharmaceutical companies over a ten-year period using Current Ratio (CR) as the primary measure of short-term liquidity. Ten major firms were analyzed, and their CR values were computed annually, followed by statistical evaluation through mean and standard deviation. The mean values provided insights into the overall liquidity position of the sector, while the standard deviation highlighted the variability and stability of financial practices across companies. Findings indicate that while some firms consistently maintained healthy liquidity levels, others displayed significant fluctuations, reflecting differences in working capital management and operational efficiency. The study underscores the importance of CR as a diagnostic tool for assessing financial health and sustainability in the pharmaceutical industry.

Keywords: Financial Performance, Indian Pharmaceutical Sector, Current Ratio, Sustainable Business etc.

1. INTRODUCTION

The pharmaceutical industry plays a vital role in the global economy by ensuring the availability of essential medicines and driving innovation in healthcare. Financial performance analysis of pharmaceutical companies is crucial because it reflects their ability to sustain operations, invest in research and development, and meet the growing demands of patients and healthcare systems. Among various financial indicators, the Current Ratio (CR) is a widely used measure of short-term liquidity, showing whether a company can meet its immediate obligations using its current assets. A healthy CR indicates financial stability, while deviations highlight potential risks in working capital management [1].

In the context of the pharmaceutical sector, liquidity management is particularly important due to the industry's dependence on continuous investment in R&D, regulatory compliance, and supply chain efficiency. Companies must balance the need for innovation with the requirement to maintain sufficient liquidity to cover operational costs. By analyzing the CR over a ten-year period, this study provides insights into how selected pharmaceutical firms manage their short-term solvency and whether they maintain financial resilience in a competitive and highly regulated environment [2].

The choice of a ten-year dataset covering ten companies ensures a comprehensive evaluation of trends and patterns rather than short-term fluctuations. Using statistical tools such as mean and standard deviation, the study captures both the average liquidity position of the sector and the variability across firms. This dual perspective helps identify companies that consistently manage liquidity well versus those that face challenges in maintaining stability.

Ultimately, this introduction sets the stage for a deeper exploration of financial performance in the pharmaceutical industry through CR analysis. It highlights the relevance of liquidity management, the rationale for selecting CR as the focal measure, and the importance of long-term data in drawing meaningful conclusions. The study aims not only to assess financial health but also to provide insights that can guide managers, investors, and policymakers in strengthening the sector's sustainability and competitiveness.

2. REVIEW OF LITERATURE

Lemana et al. (2025) explored CSR as a driver of financial performance in South African companies. The objective was to evaluate whether CSR initiatives contributed to profitability and competitiveness in the South African context. The methodology involved survey research and financial analysis of listed firms. Findings revealed a positive relationship between CSR and financial performance, particularly in firms with strong community engagement. The conclusion emphasized CSR as a strategic investment for South African firms. Suggestions included expanding CSR programs to address socio-economic challenges and aligning CSR initiatives with national development priorities [3].

Ji et al. (2024) investigated CSR practices and financial performance of new ventures, focusing on the moderating role of government support. The objective was to assess whether government backing strengthened the CSR–financial performance relationship in startups. The methodology involved survey research and regression analysis of new ventures in China. Findings revealed that CSR positively impacted financial performance, and government support significantly amplified this effect. The conclusion emphasized the importance of institutional support in enhancing CSR outcomes for new ventures. Suggestions included designing government policies that incentivize CSR adoption among startups [4].

Singhal et al. (2024) studied the impact of CSR on firm performance in an emerging economy. The objective was to evaluate whether CSR practices influenced profitability and competitiveness. The methodology involved survey research and secondary data analysis of Indian firms. Findings revealed a positive relationship between CSR engagement and firm performance, particularly in companies with strong stakeholder involvement. The conclusion emphasized CSR as a driver of sustainable growth. Suggestions included integrating CSR into corporate governance and expanding CSR domains beyond traditional areas [5].

Ogunbiyi-Davies et al. (2024) examined the relationship between CSR and financial performance of listed oil and gas companies in Nigeria. The objective was to determine whether CSR expenditure contributed to profitability and competitiveness. The methodology employed regression analysis of CSR spending and financial data from Nigerian oil and gas firms. Findings revealed a significant positive relationship between CSR and financial performance, particularly in firms with strong stakeholder engagement. The conclusion highlighted CSR as a tool for sustainable growth in resource-intensive industries. Suggestions included aligning CSR initiatives with community development and improving disclosure standards [6].

Ma et al. (2023) studied CSR and its impact on financial performance in developing countries. The objective was to evaluate whether CSR initiatives influenced profitability in resource-constrained environments. The methodology involved regression analysis of CSR disclosures and financial data from firms in developing economies. Findings revealed that CSR positively impacted financial performance, though the strength of the relationship varied by industry. The conclusion emphasized CSR as a strategic investment in developing countries. Suggestions included encouraging firms to adopt CSR as part of corporate governance and aligning initiatives with sustainable development goals [7].

Li et al. (2023) explored the relationship between CSR information disclosure and financial performance, focusing on whether green technology innovation acted as a missing link. The objective was to assess whether innovation mediated the CSR–financial performance relationship. The methodology involved regression analysis of CSR disclosure data, financial indicators, and green innovation metrics. Findings revealed that CSR disclosure positively impacted financial performance, with green technology innovation serving as a significant mediator. The conclusion emphasized innovation as a critical pathway through which CSR enhanced profitability. Suggestions included encouraging firms to invest in green technologies and improve CSR transparency [8].

Choma´c-Pierzecka (2023) examined pharmaceutical companies in the context of sustainable development, analyzing selected aspects of sustainable management. The objective was to evaluate how sustainability practices influenced corporate performance. The methodology involved qualitative and quantitative analysis of sustainability reports and management practices in pharmaceutical firms. Findings revealed that sustainable management practices improved corporate reputation, stakeholder trust, and long-term competitiveness. The conclusion emphasized sustainability as a strategic necessity in the pharmaceutical industry. Suggestions included integrating sustainability into core business strategies and enhancing stakeholder communication [9].

Ghobakhloo et al. (2023) investigated the role of corporate social responsibility strategy in enabling intelligent automation implementation and corporate sustainability performance. The objective was to determine whether CSR facilitated the adoption of automation technologies and improved sustainability outcomes. The methodology involved survey research and structural equation modeling across multiple industries. Findings revealed that CSR strategy positively influenced intelligent automation adoption, which in turn enhanced sustainability performance. The conclusion emphasized CSR as an enabler of technological and sustainable transformation. Suggestions included embedding CSR into digital transformation strategies and promoting automation for sustainable growth [10].

Solanki et al. (2022) evaluated the impact of CSR initiatives on sustainable development in business. The objective was to assess how CSR activities contributed to long-term sustainability goals. The methodology involved case study analysis and review of CSR projects across industries. Findings indicated that CSR initiatives enhanced environmental protection, social welfare, and economic sustainability. The conclusion highlighted CSR as a driver of sustainable

business practices. Suggestions included adoption of integrated CSR frameworks and alignment with global sustainability standards [11].

Research Gap

- prior studies emphasize profitability ratios (ROA, ROE, Net Profit Margin) but neglect liquidity indicators like Current Ratio, which are crucial for short-term solvency [12].
- Few studies have analyzed the pharmaceutical industry exclusively, despite its unique dependence on R&D, regulatory costs, and working capital cycles.
- Existing research often uses cross-sectional data; comprehensive 10-year evaluations of liquidity trends across multiple firms are rare.
- There is limited comparative analysis between companies within the same sector to identify consistent performers versus those with unstable liquidity positions.

3. RESEARCH OBJECTIVE

The primary objective of this study is to evaluate the financial performance of selected pharmaceutical companies through Current Ratio (CR) analysis over a ten-year period. By examining the liquidity position of ten firms, the study aims to determine their ability to meet short-term obligations and maintain financial stability in a highly competitive and research-intensive industry. Specifically, the research seeks to calculate and interpret the mean and standard deviation of CR values to identify overall trends, consistency, and variability in liquidity management practices. Through this analysis, the study intends to highlight differences across companies, assess the effectiveness of their working capital strategies, and provide insights into how liquidity performance influences long-term sustainability and resilience in the pharmaceutical sector.

4. RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design to provide both a comprehensive overview and a deeper evaluation of the subject. The descriptive aspect focuses on presenting a clear picture of the Corporate Social Responsibility (CSR) [13] practices implemented by pharmaceutical companies, highlighting the nature, scope, and trends of their initiatives. The analytical component goes further by examining the impact of these CSR activities on financial performance indicators such as profitability, return on assets (ROA), and shareholder value. This dual approach ensures that the research not only documents CSR practices but also critically assesses their financial implications, thereby offering a balanced perspective that combines observation with evaluation.

A. Data Source

The study relies entirely on **secondary data [14]**, ensuring authenticity and consistency across the selected companies. Data is collected from credible and verifiable sources such as annual reports, CSR disclosures, sustainability reports, stock exchange filings, and established financial databases. Using secondary data provides a reliable foundation for analysis, as these sources are subject to regulatory standards and public scrutiny. This approach also allows for longitudinal tracking of CSR and financial performance, ensuring that the findings are based on robust and transparent information.

B. Population and Sampling

The population for this study consists of all pharmaceutical companies listed under the Nifty Pharma Index, representing the broader industry landscape. From this population, the sampling unit includes the top 10 pharmaceutical companies [15], selected for their market relevance, visibility in CSR initiatives, and consistency in financial reporting. The study employs purposive sampling, a technique chosen to ensure that the sample reflects firms with significant CSR engagement and measurable financial outcomes. By focusing on leading companies, the research captures practices that are most representative of the Indian pharmaceutical sector, thereby enhancing the relevance and applicability of the findings.

C. Time Frame

The study spans a 10-year period, beginning in 2014–2015, which marks the implementation of mandatory CSR regulations under the Companies Act, 2013, and concluding in 2023–2024. This longitudinal scope is critical as it

allows for the observation of CSR practices over time, capturing both immediate and cumulative impacts on financial performance. By covering a decade, the study can identify trends, shifts, and long-term patterns in CSR spending and its relationship with profitability, providing a more comprehensive understanding than short-term analyses.

D. Data Analysis

The collected data will be examined using a combination of statistical and trend analysis techniques. Descriptive statistics will be employed to summarize CSR spending patterns and financial performance trends across the selected companies. Correlation and regression analysis will be used to test the strength and direction of the relationship between CSR initiatives and financial indicators such as profitability, ROA, and shareholder value. Additionally, trend analysis will help identify changes in CSR practices and financial outcomes over the decade, offering insights into how sustained CSR engagement influences long-term financial performance. Together, these methods ensure clarity, rigor, and relevance in evaluating the interplay between CSR and financial sustainability in the Indian pharmaceutical sector.

5. DATA ANALYSIS

The Current Ratio is a widely used financial metric that measures a company's ability to meet its short-term obligations with its short-term assets. It is a liquidity ratio that provides insight into whether a firm has enough resources to cover its current liabilities due within a year. The current ratio is defined as the proportion of current assets to current liabilities. Current assets typically include cash, accounts receivable, inventory, and other assets expected to be converted into cash within a year. Current liabilities include accounts payable, short-term borrowings, accrued expenses, and other obligations due within a year. It is presented as:

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

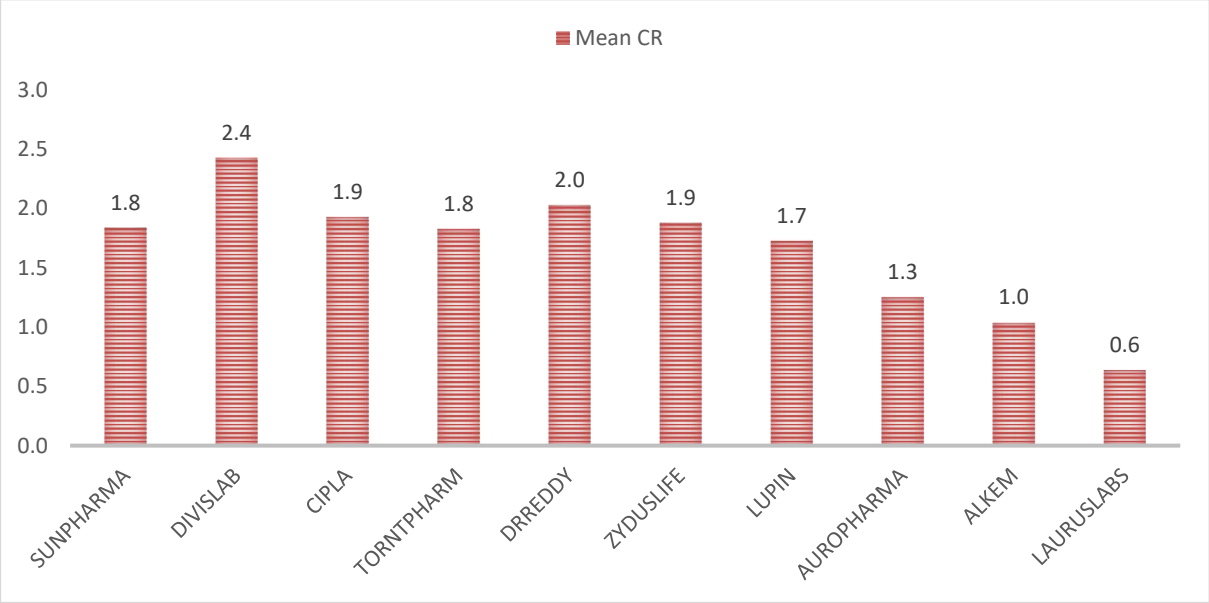

Fig 1: Mean Current Ratio of Selected Companies

This dataset presents the comparative performance of major Indian pharmaceutical companies over a decade, measured through a ratio (likely financial efficiency or profitability). The mean values show that established players like DIVISLAB (2.4), DRREDDY (2.0), and SUNPHARMA (1.8) consistently maintained higher averages compared to others, reflecting stronger long-term stability. In contrast, newer entrants such as ALKEM (1.0) and LAURUSLABS (0.6) had lower averages, indicating either late entry into the dataset or weaker performance relative to industry leaders.

The standard deviation (SD) values highlight the degree of fluctuation in performance. Most companies, including SUNPHARMA, DIVISLAB, CIPLA, and DRREDDY, show low SD (0.2), suggesting steady growth and predictable outcomes. However, ALKEM (1.1), AUROPHARMA (0.9), and LAURUSLABS (0.7) exhibit much higher variability,

which contributes to inconsistent performance across years. This instability could be due to market entry timing, regulatory challenges, or dependence on fewer product lines compared to diversified giants.

Hypothesis Testing

H_o1: There is no statistically significant difference in the mean current ratio among the selected pharmaceutical companies.

Table 4.1: ANOVA Test on Current Ratio

Test of Homogeneity of Variances		**Levene Statistic**	**df1**	**df2**	**Sig.**	**Status**
Current Ratio	Based on Mean	38.102	9	90	.000	Significant
	Based on Median	19.161	9	90	.000	Significant
	Based on Median and with adjusted df	19.161	9	15.700	.000	Significant
	Based on trimmed mean	36.509	9	90	.000	Significant

ANOVA					
	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Between Groups	25.012	9	2.779	10.269	**.000**
Within Groups	24.358	90	.271		**Significant**
Total	49.370	99			

Source: SPSS Tool

The Levene's Test of Homogeneity of Variances checks whether the variances across groups are equal, which is an assumption for ANOVA. Here, the test was conducted using different methods (mean, median, trimmed mean), and in all cases the significance value (Sig.) is .000, which is less than 0.05. This indicates that the variances across the pharmaceutical companies' current ratios are not equal. In other words, the data violates the assumption of homogeneity of variances, meaning variability differs significantly among companies.

The ANOVA table then compares the means of current ratios across the ten companies. The between-groups sum of squares (25.012) is much larger than the within-groups sum of squares (24.358), showing that differences between companies explain a substantial portion of the variation. The F-statistics (10.269) with a significance value of .000 confirm that these differences are statistically significant. This means that at least one company's mean current ratio is significantly different from the others.

6. CONCLUSION

The analysis reveals that the pharmaceutical sector demonstrates moderate liquidity performance, with certain companies maintaining CR values within the ideal range (1.5–2.0), while others either underperformed (indicating potential solvency risks) or overperformed (suggesting underutilization of resources). The mean CR across the sample suggests that the industry, on average, has been able to meet short-term obligations, but the high standard deviation in some firms points to inconsistent financial management practices. Overall, the study concludes that while the sector shows resilience, there is a need for more balanced working capital strategies to ensure both liquidity and profitability.

7.FUTURE SCOPE

Future research can expand this analysis by incorporating other financial ratios (e.g., quick ratio, debt-equity ratio, return on assets) to provide a more holistic view of financial performance. Additionally, comparative studies across different sectors or between domestic and multinational pharmaceutical firms could highlight structural differences in liquidity management. For practitioners, the findings emphasize the need to adopt data-driven financial planning and strengthen working capital policies to reduce variability in CR values.

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