

**LIQUIDITY ANALYSIS:**  
A COMPARATIVE STUDY OF CADILA HEALTHCARE LTD. AND Dr. REDDY'S LABORATORIES LTD.

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**Abstract**

The study examines the Liquidity Position of Cadila Healthcare Ltd .and Dr. Reddy's Laboratories Ltd. for the past five years. It involves in-depth analysis of working capital of both the companies, calculation of liquidity ratios, discussion about results and conclusions. The result shows that among the two selected pharmaceutical companies; the liquidity position of Dr. Reddy's Laboratories is good when current ratio and quick ratios are concerned but when absolute liquid ratio is concerned, mixed results are found. It is aimed at studying the different aspects of liquidity position of both the company in light of basic principles governing liquidity.

*Keywords: Liquidity, Liquidity analysis, Liquid Assets, Working Capital, Current Ratio, Current Liabilities.*

**Introduction**

The word liquidity and short term solvency are used synonymously. Liquidity means ability of the business to pay short terms obligations. According to Archer and D' Ambrosio, liquidity means cash and cash availability, and it is from current operations and previous accumulations that cash is available, to take care of the claims of both short term suppliers of capital and the long term ones. Liquidity has two dimensions; the short term and the long term liquidity. Liquidity is having enough financial resources to cover financial obligations in a timely manner with minimal costs. It is that amount of internal cash flow, which relates to a firm's ability to pay for its current obligations. On the other hand, lack of liquidity may seriously affect the continuity of the company activities.

**Review of Literature**

**Karamjeet and Firew (2011):** conducted a study to assess the working capital adequacy and its impact on profitability of firms using a sample of 449 Indian manufacturing firms and found that there is significant difference in relative solvency level of firms and firms with adequate working capital.

**Dhulia Hirenkumar Kantilal (2012):** studied on analysis of gross profit to sales ratio of top ten pharmaceutical companies and shows that there is significance difference between in the gross profit to sales ratio among different companies under study as well as different years of each company lastly the researcher concluded the Gross Profit to sales ratio among different companies and among different years under study is not same.

**Neeraj and Devesh (2013):** studied liquidity position and impact on profitability of Tata Steel and steel authority of India. The study found that liquidity position can be improved with the help of low average collection period and average collection can be reduce by proper coordination between sale, production and finance department, lastly conclude that study found positive impact of liquidity position on profitability with the help of various techniques.

**Ashok Kumar ((2013):** studied liquidity position of five leading companies which cover period of 10 years from 2000-2010. It has been found that the liquidity positions of small companies are better as compared to big one. Lastly, it is concluded that companies should maintain an ideal current and liquid ratio.

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