

# A Study of Selected Pharmaceutical Companies' Profitability

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## ABSTRACT

Profitability is a key feature for the entire business firm. In today's bloodthirsty world it is great challenge to retain the financial strength of firm on regular basis. Nowadays, each and every firm wants to see their financial status at a top position. The Indian Pharmaceutical Industry is one of the largest and well known industries in the world. Therefore, this study tries to examine the profitability level of pharma sector. This study has selected five pharma companies from toppers and covered the period from 2012-13 to 2016-17 and to analyze selected data ratio analysis method was used as tools. The final conclusion of this study is that the overall performance of Cadila and Davish is best among all the selected companies because their ratios are higher in overall comparison. Dr. Reddys and Bicon's performance is also noticeable. The rest companies should pay more attention in the managerial system and try to improve it.

## 1. Introduction

The Indian Pharmaceutical Industry is one of the largest and well known industries in the world and it also achieved 4th rank in the world related to sales volume. Nowadays, 20% to 24% of the global generic drugs are produced by Indian Pharma Industry and it became one of the largest producers of the active pharmaceutical ingredients (API) internationally. In our country, the science-based industries are mainly directed by the Indian Pharma sector. Indian Pharma industry is one of the great magnetizer of foreign direct investments in order to encourage this sector and it is one of fastest rising international center for contract research and manufacturing services or CRAMS.

The Indian pharmaceutical industry exported products worth US\$ 16.8 billion during the year 2017 and it has covered 200 plus countries globally. It is also estimated that it will boost up with US\$ 40 billion by 2020. There is a vast Role of Pharmaceutical Industry in Indian GDP. Since the last few years, the performance of Indian Pharmaceutical Industry is remarkable. Indian pharmaceutical sector is expected to reach 3.1 to 3.6 % among the world pharmaceutical industry in value terms, 10 % in volume terms and also estimated to raise to US\$100 billion by 2025. This sector is anticipated that it will provide 58,000 additional job opportunities to country in near future.

In present time, Indian government is paying proper attention in this sector. Therefore, some of major steps are been taken by the government in order to encourage the pharmaceutical sector in India, such as it is planning to established an electronic platform to control online pharmacies under a new policy and as it is easy available. Therefore, all this actions are performed in order to reduce the misuse. Due to improving consumer spending, fast urbanization, and raising healthcare the market size of Indian pharmaceutical is estimated to expand with US\$ 100 billion by 2025. The income of this sector is also likely to grow 9 % yearly by fiscal 2020.

The capability of a company to create revenues use in addition to its expenses by its resources is known as Profitability. Moreover, it is the ability of company to generate profit by its operations. Profitability is the main pillar for analyzing the entire performance of the company and its statements. The existence of any business is depended on Profitability. The permanent survivals of the firms are on basis of the profit earning capacity of the business, it also plays a major role in controlling the reputation of the firm. The firm's borrowing capacity is also measured through Profit. Therefore, it is said to be the key element in verifying the capital structure of the firm.

## 2. Review of literature

- **Mohammad Morshedur Rahman (2011)**, observed working Capital Management and Profitability as a Study on Textiles Industry. It covered the period from 2006 to 2008. The researcher used Ratio analysis, Correlation Analysis, Correlation matrix as tools. The study revealed that its profitability ratios and working capital ratios expressed that both position were not satisfactory.
- **Kulkanya Napompech (2012)**, observed the effects of Working Capital Management on the Profitability of Thai Listed Firms. It covered the period from 2007-09. The researcher selected 255 companies listed on the Stock Exchange of Thailand. The tools used were Descriptive Statistics, Correlation Analysis and Regression Analysis. The final results of this study showed a significant negative relationship between firm's profitability and the inventory conversion period and receivables collection period. This study also found an inverse relationship between the payables deferral period and profitability.
- **Dr. Sarbapriya Ray (2012)**, made a study on evaluating the impact of working capital management components on corporate profitability with evidence from Indian manufacturing firms. It covered the period

from 1996-97 to 2009-10 and selected 311 manufacturing firms as sample for the study. The used many tools for this research like Descriptive Statistics, Pearson Bivariate Correlation Analysis. The study concluded that the best of working capital management could be achieved by firms that manage the tradeoff between profitability and liquidity.

- **Hina Agha (2014)**, examined the impact of working capital Management on profitability. The study covered the period from 1996-2011. The researcher selected Glaxo Smith Kline pharmaceutical company as sample. The tools used for the analysis were Ratio analysis & Correlation matrix. The study concluded that there was positive relationship, and proper working capital Management. So, the company can increase its profitability.
- **Dr. Monica Tulsian (2014)**, made a study on Profitability Analysis (A comparative study of SAIL & TATA Steel). The study covered the period from 2007-08 to 2011-12. The researcher selected Sail and Tata Steel as sample. The tools used were Ratio analysis t-test. Over all the study concluded that the performance of Tata steel was better than sail.
- **Ayub Ahamed K S (2017)**, made a comparative study on working capital management of selected pharmaceutical companies of India. The covered the period from 2012 to 2016 and selected 5 pharmaceutical as sample. The researcher used Ratio analysis as tool for this study. The final outcome of this study revealed that the management of working capital was really appreciable.

**3. Objectives of research**

1. To analyze the profitability of selected pharmaceutical companies.
2. To compare the profitability levels of different selected pharmaceutical companies.

**4. Research methodology**

**Sources of Data:**

Secondary sources of data have been utilized for this research study. Secondary data have been collected from pharmaceutical companies' annual reports, companies websites etc.

**Universe**

In this research study, the researcher has selected five pharmaceutical companies.

- Cipla
- Cadila Healthcare
- Dr. Reddys Laboratories
- Davis Laboratories
- Biocon

**Period of data coverage**

Five years of financial statements are been analyzed for pharmaceutical companies taken under study. Profitability measures from 2012-13to 2016-17 has been studied in order to analyze latest trends and performance of pharmaceutical companies.

**5. Analysis of data**

Tables, diagrams and statistical results have been derived with the help of statistical calculation and Microsoft excels tools. Data has been analyzed by profitability ratios of pharmaceutical companies.

**6. Limitation of study**

1. This study only includes five pharmaceutical companies working in India.
2. The present study is based on ratio analysis and it has its own limitation that applies to this study also.
3. This study is depended upon the data obtain from annual reports of pharmaceutical selected companies working in India.
4. It is true that deep knowledge is required for interpretation of some ratio and this study may be lacking in this matter.
5. It was not easy for researcher to cover all concepts of profitability and therefore, some concepts may not be including in the study.

**Gross profit ratio**

This ratio represents the bond among net sale and gross profit, the fraction of this ratio is essential for management as it accounts concerning the procedures efficiency, profits, operating cost, average spread, etc. The core intend of this ratio is to choose the factors responsible for the efficiency of the firm.

**Table no: 1.1**

Year	Cipla	Cadila	Dr.Reddys	Davish	Biocon
2013	22.14	16.03	19.83	34.98	16.02
2014	17.75	16.81	24.47	36.86	15.84
2015	15.08	25.02	18.98	33.27	13.46
2016	13.29	33	17.19	34.38	12.04
2017	9.98	2.17	10.39	32.66	17.03

Sources: Money control

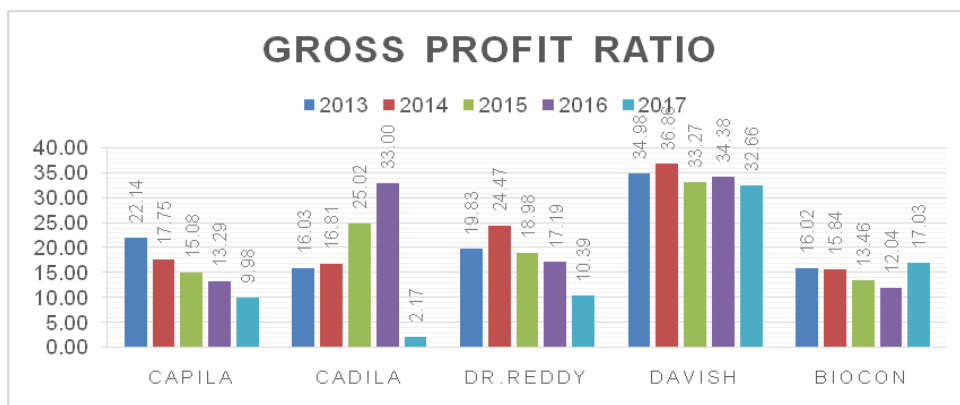


Chart no: 1.1

The gross profit ratio of Cipla during the financial year 2013 was 22.14%. After that, it faced a constant decreased for four years and in the year 2017 it reached to 9.98% which is not appreciable.

The gross profit ratio of Cadila Healthcare during the financial year 2013 was 16.03%. Soon after, it increased with 16.81% in the year 2014. Subsequently, it boosted with 25.02% in the year 2015. Thereafter, it improved with 33.00% in the year 2016. Later on, it faced a great downfall with 2.17% which shows performance in the last year pitiful.

The gross profit ratio of Dr. Reddys Laboratories during the financial year 2013 was 19.83%. Thereafter, it was increased with 24.47% in the year 2014. Consequently, it faced a constant declined for three years and in the year 2017 it reached to 10.39% which is not satisfactory.

The gross profit ratio of Davis Laboratories during the financial year 2013 was 34.98%. Later on, it rose with 36.86% in the year 2014. Subsequently, it declined with 33.27% in the year 2015. Soon after, it advanced with 34.38% in the year

2016. Lastly, it turns down with 32.66% in the year 2017. Therefore, it can be said that there are many up and downs during the whole research period.

The gross profit ratio of Biocon during the financial year 2013 was 16.02%. Nextly, it faced a constant drop off for three years and in the year 2017 it progressed with 17.03%. The performance of this company was average during the whole research period.

**Net operating profit ratio**

The Net Operating Profit Ratio indicates the connection among net sales and net operating profit. This ratio assists the purpose of how the profit can be raised in the firm. Moreover, this ratio underlines the resourceful management of business concerns.

Table no: 1.2

Year	Cipla	Cadila	Dr.Reddys	Davis	Biocon
2013	18.37	13.56	15	28.72	14.22
2014	14.8	22.35	19.86	31.49	14.97
2015	11.65	24.05	16.77	27.46	16.11
2016	12.06	28.1	13.26	29.76	16.01
2017	8.88	20.48	14.24	26.17	20.06

Sources: Money control

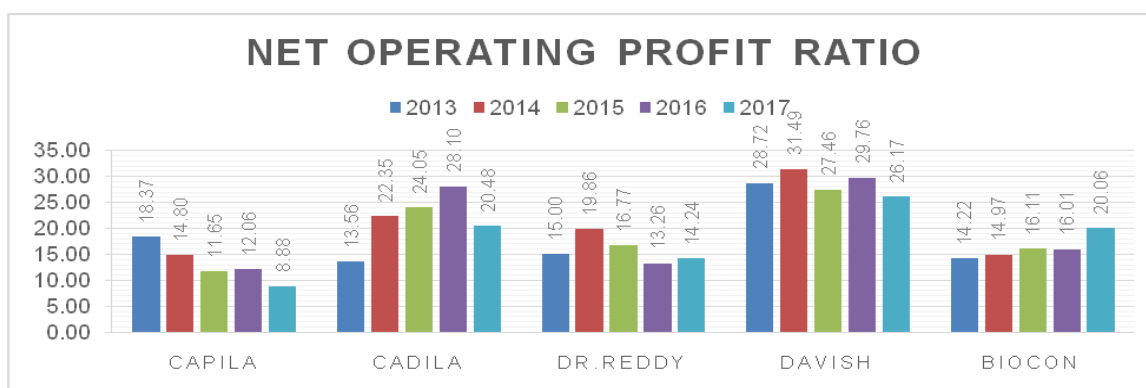


Chart no: 1.2

The Net profit ratio of Cipla during the financial year 2013 was 18.37%. After that, it faced a constant turn down for four years and in the year 2017 it reached to 8.88% which is not appreciable.

The Net profit ratio of Cadila Healthcare during the financial year 2013 was 13.56%. Soon after, it improved for constant three years with 22.35%, 24.05% and 28.10% from 2014 to 2016 in that order. Nextly, it reduced with 20.48% in the year 2017. Therefore, it can be said that the performance of this company is average.

The Net profit ratio of Dr. Reddys Laboratories during the financial year 2013 was 15.00%. Thereafter, it was increased with 19.86% in the year 2014. Later on, it faced a constant downfall for three years. In the year 2017, it reached to 14.24% which shows moderate performance.

The net profit ratio of Davis Laboratories during the financial year 2013 was 28.72%. Later on, it rose with 31.49% in the year 2014. Subsequently, it declined with 27.46% in the

year 2015. Soon after, it advanced with 29.76% in the year 2016 and lastly, it turndown with 26.17% in the year 2017. Therefore, it can be said that there many up and downs during the whole research period.

The net profit ratio of Biocon during the financial year 2013 was 14.22%. Nextly, it improved for constant four years and in the year 2017 it progressed with 20.06%. The performance of this company was upward trend during the whole research period.

**Return on net capital employed ratio**

This ratio plays an important role as it calculates fully show of business activities in side of profitability and it also establishes the connection flanked by capital employed and profit earned. This ratio presents how to make use of expected fund, which was gathered from owners and creditors.

Table no: 1.3

Year	Cipla	Cadila	Dr.Reddys	Davis	Biocon
2013	20.81	14.09	19.36	30.68	15.58
2014	17.75	19.6	21.11	33.11	16.22
2015	13.44	26.04	15.43	29.79	17
2016	14.41	34.24	13.61	31.28	7.08
2017	9.34	6.94	11.47	25.53	8.08

Sources: Money control

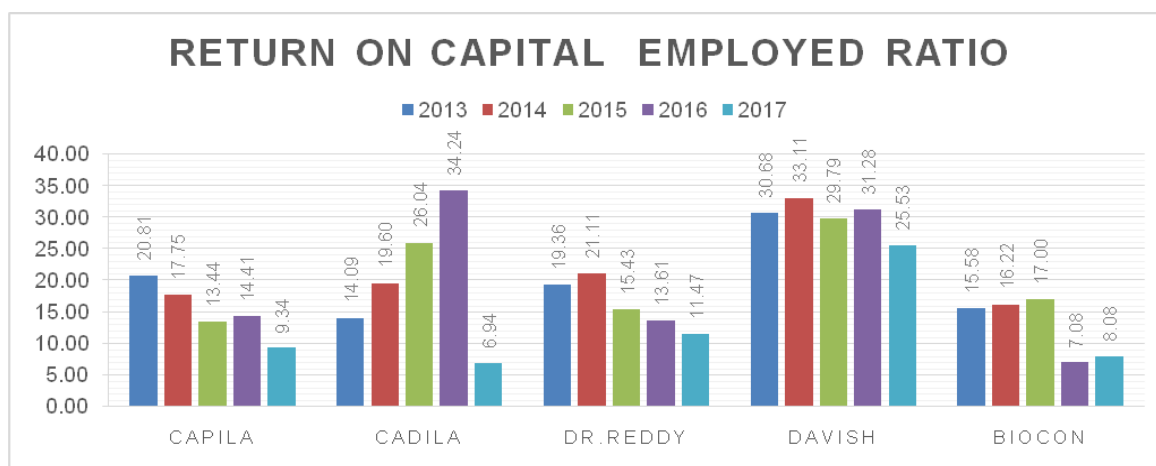


Chart no: 1.3

The Return on Capital Employed ratio of Cipla during the financial year 2013 was 20.81%. After that, it faced a constant decreased for four years and in the year 2017 it reached to 9.34% which is not appreciable.

The Return on Capital Employed ratio of Cadila Healthcare during the financial year 2013 was 14.09%. Soon after, it increased for constant three years with 19.60%, 26.04% and 34.24% from 2014 to 2016 respectively. Later on, it faced a great downfall with 6.94% which is pitiful.

The Return on Capital Employed ratio of Dr. Reddys Laboratories during the financial year 2013 was 19.36%. Thereafter, it was increased with 21.11% in the year 2014. After that, it faced a constant decreased for three year. In the year 2017 it reached to 11.47% which is not satisfactory.

The Return on Capital Employed ratio of Davis Laboratories during the financial year 2013 was 30.68%. Later on, it rose with 33.11% in the year 2014. Subsequently, it decline with 29.79% in the year 2015. Soon after, it advanced with 31.28% in the year 2016. Lastly, it turns down with 25.53%

in the year 2017. Therefore, it can be said that there many up and downs during the whole research period.

The Return on Capital Employed ratio of Biocon during the financial year 2013 was 15.58%. consequently, it boost up with 16.22% and 17% from 2014 to 2015 in that order .Nextly, it faced a constant drop off for two years and in the year 2017 it reached 8.08%. The performance of this company was average during the whole research period.

## 7. Findings

- The Gross profit ratio of Cadila, Davis and Dr. Reddys are remarkable which means their profit margin is higher and they are efficient in generating sales and the rest should focus on generating high sales in order to increase their profit margin.
- The net profit ratio of Cadila, Davis and Biocon are significant among selected companies which mean they are efficiently converting their sales into actual

profit. And the rest companies should pay attention to their firms' profitability.

- The return on capital employed ratio of Cadila and Davis is favorable among other selected companies. This means that they are efficiently employing their capital and generating shareholder value.

## 8. Conclusion

The conclusion of this study is that the overall performance of Cadila and Davis is best among all the selected companies because its ratios are higher in overall comparison. Dr, Reddys and Bicon performance is also noticeable. This proves that these companies are paying proper attention in their management as they are able to increase their sales and as a result their profit is also increasing in the same way. Moreover, the people associated with the company are also been paid good returns timely. The rest companies should pay more attention in the managerial system and try to improve it.

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