

A Study on the Measurement of Profitability Efficiency of Selected Pharmaceutical Companies in India

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ABSTRACT

The pharmaceutical industry is the one of the back bone of Indian company, which has rapidly growing industry in the world; the pharmaceuticals industry complied with small scale, medium scale and large scale firms. The companies belongs to manufacturing industry has to concentrate of operating cost, the operating cost is one of the major deciding factors in determination of profitability, profitability is key objectives of all types of business. The manager has to concentrate more on the improvement of profitability, the determinants of profitability covers in the area of operating functional department and mainly the financial area to be concentrated more than other functional areas. In order to improve profitability of companies financial liquidity, solvency, cost management should be focused. Profitability is ability of company to improve or increase the trading profit or income. in order to find the strength and weakness towards profitability of firm the present study is undertaken, this study is descriptive nature, the selected pharmaceutical companies profitability measures by descriptive statistic method and Anova, finally it conclude that the selected companies having good ability to maintain profit.

1. Introduction

Indian pharmaceutical industry has a major contribution in Indian GDP, and which has nearly 23,000 units around the country. This industry increases its unit for last two decades. The companies belongs to manufacturing industry has to concentrate of operating cost, the operating cost is one of the major deciding factors in determination of profitability, profitability is key objectives of all types of business. The pharmaceutical industry is the one of the back bone of Indian company, which has rapidly growing industry in the world, the pharmaceuticals industry complied with small scale, medium scale and large scale firms. The profitability of companies determined by the effective management of cash flows and cost reduction towards operating expense.

The financial liquidity and solvency position of company also create major impact on profitability, companies should have good working capital management techniques which are included, cash management, receivable management and inventory management. The proper management of solvency or ability to managing of debt funds and repayment ability of debt amount with principle and interest amount will be shows the how the company good or bad in operations' management. The primary motives all types of business irrespective of size and nature of product is maximization of profit, without profit the companies cannot survive, at least for fulfilling of regular expense the firms should generate some income or adequate cash flows, the profitability is the only factors to decided the company's financial position, the financial position of companies create major impact on shareholders wealth and also it lead to increase value of firm.

2. Review of Literature

Bhabatosh Banerjee (2015) conducted study about the

relationship between profitability and liquidity of Indian companies, he analyzed the profitability and liquidity trend of companies and found that the company's liquidity position have major impact on profit or cash flows generation, the profitability is key factors to determine the overall value of the firm.

LathaArunreddy (2016) studied about the profitability and growth of Indian manufacturing industry and also examined the relationship of profitability, growth and other factors, finally concluded that the relationship among the variable is positive, hence there is the close relationship between growth of company and profitability of company which means the profitability of companies always lead to growth of wealth and market.

Sharma and Reddy (2018) conducted a study on measurement of liquidity position and factors influencing on it. Finally concluded the government policy and company's financial policy has major influencing factors in determination of liquidity of firm.

3. Statement of the Problem

The operating and finance functions have major role in growth and determinants value of firm, managing of funds in the competitive world is very crucial. The financial manager has to focus on all area of functional activities because the fiancé is center of business, in order to make high profit many factors to be consider before making of financial planning and budget. The efficiency of company depends on many factors such as production techniques, human factors, financial policy, technology and marketing activities of firms. So maintain good profitability and managing of liquidity and solvency position of company is very tough job. The present study dealt with the a

study on profitability evaluation of selected pharmaceutical companies in India.

4. Objective of the Study

To evaluate the profitability of selected pharmaceutical companies in India

5. Methodology of study

The present study is descriptive nature, and the secondary source of data have been used to analysis the profitability of the firms, financial data collected from annual reports and official website of selected companies, the financial ratio analysis, descriptive statistic of Mean, Standard Deviation, Co variation and Anova have been used to measure data in order to get accurate result of the study. The convenience sampling techniques is used to select the sample companies based on stock market performance market capitalization and profitability of company.

6. Analysis and Interpretation

Table 1 Gross Profit Ratio

Company Name	Mean	S.D	C.V
Cipla Ltd	123.8443	3.7996	3.844
AurobindoPharma Ltd	78.4846	4.003	4.1125
Cadila Health care	98.8781	7.5367	8.1928

Source: Annual Reports

Table 1 indicate that the descriptive statistic of gross profit ratio of selected pharmaceutical companies in India. The result display in more fluctuation in during the study period, Cipla Ltd has highest mean value of 123.8443 followed by Cadila Health care Ltd has 98.8781 and AurobindoPharma Ltd least mean of 78.4846, the consistency of gross profit ratio shows that Cadila Health care has higher consistency with C.V of 8.1928.

Table 2 Net Profit Ratio

Company Name	Mean	S.D	C.V
Cipla Ltd	18.234	8.469	44.297
AurobindoPharma Ltd	19.469	3.2379	14.2679
Cadila Health care	19.4689	3.266	13.497

Source: Annual Reports

Table 2 shows the Net profit ratios of selected Pharma companies, the AurobindoPharma Ltd and Cadila Health care shows the mean value of 19.469 as favour position in maintaining of good profit, and Cipla Ltd shows a least value of mean 18.234. The table also indicate the consistency of Net profit ratio of selected companies Cipla Ltd has more consistency as 44.297, Cadila Health care has lower consistency 13.497 and AurobindoPharma Ltd shows moderate consistency in maintaining of Net Profit.

Table 3 Operating Profit Ratio

Company Name	Mean	S.D	C.V
Cipla Ltd	16.55	7.458	45.123
AurobindoPharma Ltd	23.78	1.456	8.4556
Cadila Health care	22.233	4.128	17.458

Source: Annual Reports

The above table 3 reveals that the Mean, SD and CV of Operating profit ratio of selected Pharmaceutical companies in India. The highest mean value shows in AurobindoPharma Ltd as 23.78 with highest SD of 1.456, the Cadila Health care shows that the mean value of 22.233 with SD of 4.128 and the Cipla Ltd maintain the lower level operating profit ratio with the mean value of 16.55 and also has more consistency about CV of 45.123 followed by Cadila Health care shows 17.458 and AurobindoPharma Ltd 8.4556 respectively.

Table 4 Return on equity capital

Company Name	Mean	S.D	C.V
Cipla Ltd	612.45	245.45	47.458
AurobindoPharma Ltd	678.189	278.45	41.479
Cadila Health care	879.45	189.45	21.238

Source: Annual Reports

The return on equity capital of selected pharma companies shown in the table 4, the highest mean value is 879.45 is reflecting in Cadila Health care, followed by AurobindoPharma Ltd 678.189 and Cipla Ltd 612.45, the consistency of the ROEC tested with CV and the Cipla Ltd shows more consistency of 47.458 and Cadila Health care shows as least consistency of 21.238.

6.2 ONE-WAY ANOVA

Table 7 shows the one way ANOVA of the Sun Pharma Ltd calculated F value of the variables such as 19.843 is higher than table value of 2.866 with significance level of at 5 percent. So, there is a significant relationship between profitability ratios.

Table 8 shows the one way ANOVA of the Sun Pharma Ltd calculated F value of the variables such as 28.611 is higher than table value of 2.866 with significance level of at 5 percent. So, there is a significant relationship between profitability ratios.

Table 9 shows the one way ANOVA of the Sun Pharma Ltd calculated F value of the variables such as 8.741 is higher than table value of 2.866 with significance level of at 5 percent. So, there is a significant relationship between profitability ratios.

Table 7 One Way ANOVA of the Cadila Health Care Ltd

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	935016.641	4	233754.160		
Within Groups	235602.335	20	11780.117	19.843	.000
Total	1170618.976	24			

Table 8 One Way ANOVA of the Cipla

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1354351.216	4	338587.804		
Within Groups	236681.308	20	11834.065	28.611	.000
Total	1591032.524	24			

Table 9 One Way ANOVA of the AurobindoPharma Ltd

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2748222.827	4	687055.707		
Within Groups	1572034.041	20	78601.702	8.741	.000
Total	4320256.868	24			

6.1 MULTIPLE REGRESION ANALYSIS

Table.6 shows the Multiple Regression Analysis of Pharmaceutical Companies in India during the period of 2008-2009 to 2017-2018.

Table.6 Multiple Regression Analysis of Pharmaceutical Companies in India

Company Name	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Cipla Ltd	1	.994(a)	.996	.997	.44695
AurobindoPharma Ltd	1	.906(a)	.820	.281	1.87759
Cadila Health care	1	.968(a)	.937	.748	1.05734

a Predictors: (Constant), ROEC, GP, OP

Table.6 represents the multiple regression analysis of Pharmaceutical Companies in India statistical significance of the model. The R^2 value are states that all the four independent variables that is gross profit ratio, operating profit ratio and return on equity capital ratio have influence on the dependent variable of net profit ratio.

The Cipla Ltd, statistical significance of the model. The R^2 value at .996 states that the three independent variables that is gross profit ratio, operating profit ratio, and return on equity capital have 99.6 per cent influence on the dependent variable of net profit ratio which is significant at 5 per cent level.

The AurobindoPharma Ltd, statistical significance of the model. The R^2 value at .820 states that the three independent variables that is gross profit ratio, operating profit ratio, and return on equity capital have 99.5 per cent influence on the dependent variable of net profit ratio which is significant at 5 per cent level.

The Cadila Health care Ltd statistical significance of the model. The R^2 value at .937 states that the three independent variables that is gross profit ratio, operating profit ratio, and return on equity capital have 99.6 per cent influence on the

dependent variable of net profit ratio which is significant at 5 per cent level.

7. Discussion and Conclusion

The companies has favour positive signals of return on equity capital and earnings per share, even though the there is some ups and downs in financial result but overall financial conditions of companies is good. When companies profitability declining position then, it has to concentrate more on the operating cost in order to reduce the internal expense.

The firm's cash flow management also focused towards efficient uses of fund for generation of high positive profit. Maintains of good liquidity position or working capital level also leads to increase in profitability of the firms, to survival of long period in the market the shareholders' value is more important which will be decided the firms Earning Per Share and Return on Equity . The profitability of firm indicate the financial health of organization and also its shows that how company is good in managing of finance, from the above analysis the selected companies has positive result in maintaining of profitability towards gross profit, Net profit and operating profit.

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