

A Study of Profitability Analysis of Selected Pharmaceutical Companies of India

Prof. Yogesh J. Oza* & Dr. Kamlesh S. Dave**

*Assistant Professor, Smt. K.S.N. Kansagara College – Rajkot

**Assistant Professor & Ph. D. Guide, Shri J. H. Bhalodia Women's College - Rajkot

Received: March 05, 2018

Accepted: April 06, 2018

ABSTRACT

Pharmaceutical companies have been top performers in the health care sector in an era of aging populations, rising health care costs, and the ongoing development of new and extremely profitable medicines. Investors seeking to invest in the best pharmaceutical companies are faced with a wide array of publicly traded companies from which to choose. In order to make informed choices, investors need to consider key financial ratios that are most helpful in the analysis and equity evaluation of pharmacy firms. Pharmaceutical companies are characterized by high capital expenditures on research and development (R&D) and having to endure a long time span between initial research and finally getting a product to market. Once a pharmacy product reaches the marketplace, the company needs to determine how high a price the company can command for a drug in order to earn a profitable return on its investment as quickly as possible. Key financial ratios for pharmaceutical companies are those related to R&D costs, the company's ability to manage high levels of performance.

Key Words: Profitability, EPS, Pharmaceutical Companies, Net Profit.

Introduction

The pharmaceutical industry is one of the success stories of Indian manufacturing sector. Favorable Government policies along with industry/firm level initiatives have helped the industry to experience high growth rates over the years. Many Indian pharmaceutical companies have not only shown good performance domestically but have also been able to establish their foothold in overseas markets. Despite challenges posed by the WTO regime, the growth momentum has continued in this sector. The strategies being adopted by the industry are however to be strengthened along with an appropriate policy framework for shaping the future of the Indian pharmaceutical industry.

OBJECTIVE OF THE STUDY

Present article is based on the Study of Profitability of Selected Companies of Pharmaceutical Industry

PERIOD OF STUDY

The study period is to be converted 10 years; from 2007-08 to 2016-17.

NO. OF SAMPLE

Researcher has selected 5 Pharmaceutical companies randomly for the present study.

TOOLS & TECHNIQUES

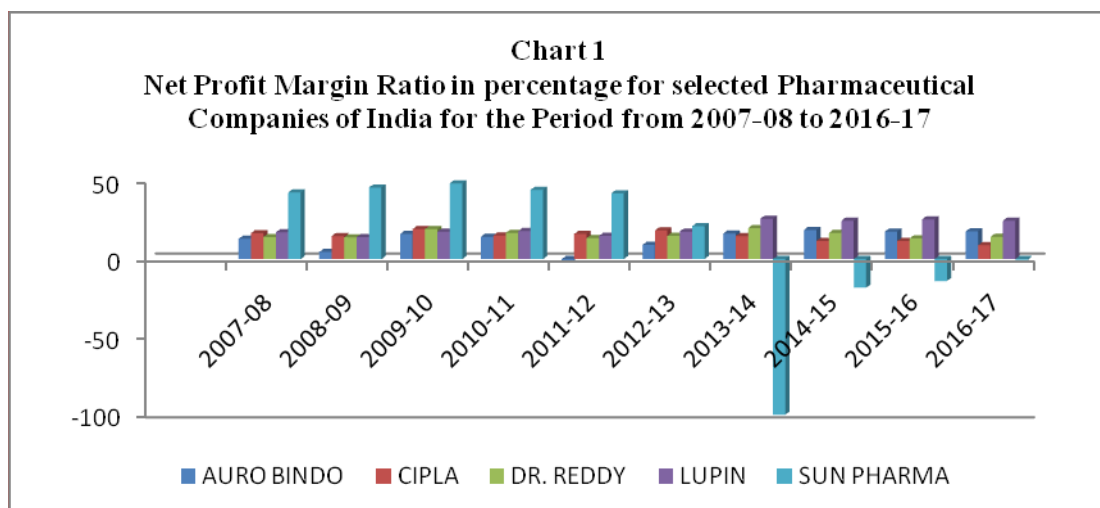
For the present study Ratio Analysis as an accounting tools and F-Test - ONE WAY ANOVA is used as tools of Statistics

(a) Net Profit Ratio The net profit margin ratio is a profitability ratio. Essentially, it's the percentage of profit from business operations after you've deducted business operating expenses, interest expense, taxes and preferred stock dividends from revenues. Common stock dividends are the only major debit item left out of the equation. Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how good a company is at converting revenue into profits available for shareholders.

YEAR	COMPANY				
	AURO BINDO	CIPLA	DR. REDDY	LUPIN	SUN PHARMA
2007-08	13.01	16.68	14.16	17.19	42.81
2008-09	4.59	14.84	14.02	14.11	46.02
2009-10	16.16	19.29	19.24	17.55	48.70
2010-11	14.36	15.16	16.84	18.02	44.52
2011-12	-0.99	16.10	13.53	14.93	42.27
2012-13	9.14	18.37	15.00	17.69	21.23
2013-14	16.48	14.80	19.86	25.99	-99.99
2014-15	18.73	11.65	16.77	24.58	-18.38
2015-16	17.67	11.61	13.26	25.57	-14.09
2016-17	17.76	8.88	14.24	24.63	-0.45
TOTAL	126.91	147.38	156.92	200.26	112.64
AVG	12.69	14.74	15.69	20.03	11.26

From the above table it is evident that average net profit margin of LUPIN is showing 20.03 percent during research period is which is to be followed by Dr. Reddy with 15.69 percent during research period while sun pharma is showing lowest average net profit margin during research period due to sun pharma has made huge loss in the year 2013-14 if abnormal loss is ignored highest profit margin is to be showing by sun pharma during research period.

➤ GRAPHICAL ANALYSIS



From the above graph it is evident that from 2007-08 to 2012-13 Sun Pharma is having highest profit margin among the selected research unit while Lupin is showing highest profit margin for the remaining research period.

➤ STATISTICAL ANALYSIS

Table 2					
"F"-Test One Way ANOVA for Net Profit Margin Ratio in percentage for selected Pharmaceutical Companies of India for the Period from 2007-08 to 2016-17					
H ₀ : There is No Significant Different between Net Profit Ratio of Selected Pharmaceutical Companies of India for the period from 2007-08 to 2016-17					
H ₁ : There is Significant Different between Net Profit Ratio of Selected Pharmaceutical Companies of India for the period from 2007-08 to 2016-17					
Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F _c	F _t
B.S.S.	450.2798	04	112.5699	0.24679	2.578739
W.S.S.	20526.13	45	456.1362		
T.S.S.	20976.41	49			

From the "F" test one way ANOVA Table as calculated above it shows Calculated value of $F_c = 0.24679$ while tabular value of $F_t = 2.578739$ which show that calculated value F_c is smaller than tabular value F_t , $F_c < F_t$ Hence Null Hypothesis is accepted and Alternative Hypothesis is rejected that there is no any significant Difference in net profit margin for selected pharmaceutical companies of India during research period.

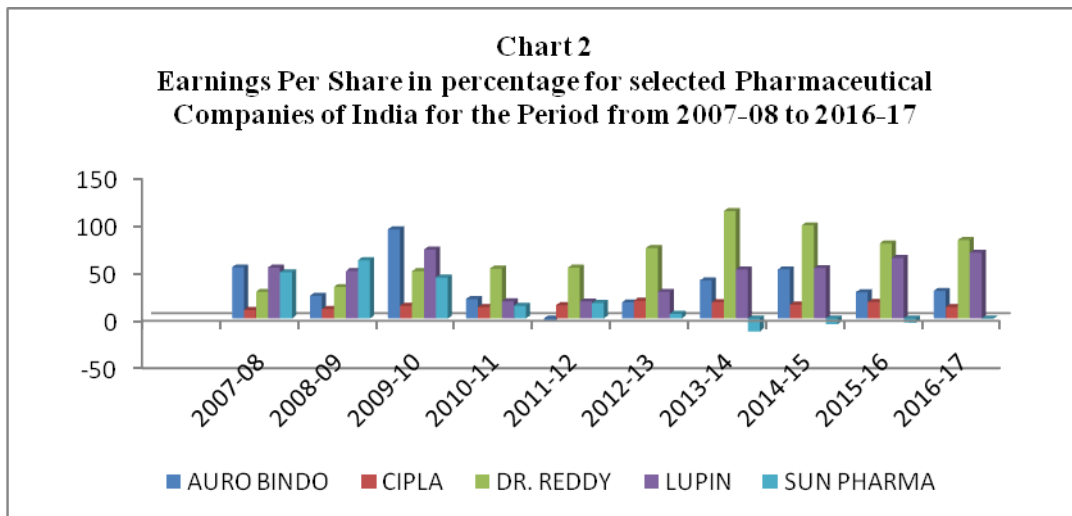
(b) EPS

Earnings per share (EPS), also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding shares at the end of the year.

Table 3					
Earnings Per Share for selected Pharmaceutical Companies of India for the Period from 2007-08 to 2016-17					
YEAR	COMPANY				
	AURO BINDO	CIPLA	DR. REDDY	LUPIN	SUN PHARMA
2007-08	54.09	9.02	28.17	53.95	48.96
2008-09	23.91	9.99	33.30	50.35	61.65
2009-10	94.36	13.47	50.12	72.84	43.39
2010-11	20.63	11.96	52.82	18.18	13.40
2011-12	-1.46	14.00	53.83	18.02	16.40
2012-13	17.04	18.77	74.54	28.19	5.00
2013-14	40.24	17.29	113.67	51.88	-13.70
2014-15	52.01	14.71	98.60	53.41	-6.10
2015-16	27.73	17.41	79.42	64.10	-4.50
2016-17	29.16	12.13	83.05	69.63	-0.10
TOTAL	357.71	138.75	667.52	480.55	164.40
AVG	35.77	13.88	66.75	48.06	16.44

From the above table it is evident that average EPS of Dr. Reddy is showing 66.75 Lupin is following to Dr. Reddy with 48.06 while Aurobindo is showing average EPS during research period is 35.77. LUPIN is having highest net profit margin during research period even though Dr. Reddy is having highest average EPS during research period which shows that Dr. Reddy is performing well on their owner's fund.

➤ **GRAPHICAL ANALYSIS**



From the above graph it is evident that CIPLA is having least EPS during research period while sun pharma is showing negative EPS for the period from 2013-14 to 2016-17 during research period. Remaining research unit is showing fluctuation in the rate of EPS during research period.

➤ **STATISTICAL ANALYSIS**

Table 5.5 "F"-Test One Way ANOVA for Earnings Per Share for selected Pharmaceutical Companies of India for the Period from 2007-08 to 2016-17					
H₀: There is No Significant Different between Earnings Per Share of Selected Pharmaceutical Companies of India for the period from 2007-08 to 2016-17					
H₁: There is Significant Different between Earnings Per Share of Selected Pharmaceutical Companies of India for the period from 2007-08 to 2016-17					
Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F _c	F _t
B.S.S.	19630.10705	04	4907.527	9.595225	2.578739
W.S.S.	23015.47835	45	511.4551		
T.S.S.	42645.5854	49			

From the "F" test one way ANOVA Table as calculated above it shows Calculated value of F_c = 9.595225 while tabular value of F_t = 2.578739 which show that calculated value F_c is greater than tabular value F_t, F_c > F_t Hence Null Hypothesis is rejected and Alternative Hypothesis is accepted that there is significant Difference in Earnings Per Share for selected pharmaceutical companies of India during research period.

Conclusion

Researcher has focused net profit margin and EPS two parameters for profitability analysis because net profit margin shows the earning capacity of the research unit under study during research period on the base of entrepreneur skill while EPS is showing for the earning ability on the base of finance input per share of the owner's fund.

References:

1. <https://www.investopedia.com>
2. <https://www.equitymaster.com>
3. <https://www.wallstreetmojo.com>
4. <https://www.moneycontrol.com>
5. <https://www.myaccountingcourse.com>