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## A COMPARATIVE STUDY OF PROFITABILITY SELECT PHARMACEUTICAL COMPANIES IN INDIA

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## ABSTRACT

A firm's performance measurement has been the subject matter of discussion for decision makers as managers, planners, economists and academic staff since long many years. It is the process of measuring the results of a firm's policies and operations in monetary terms. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same companies or to compare companies or sectors in aggregation. Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, leverage performance, asset utilization performance and growth performance. The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. In this paper an attempt has been made to analyze the profitability position of five leading pharmaceutical companies of India with the help of mean, standard deviation, co-efficient of variation, and analysis of variance. The results match with the earlier studies and the established theory of finance that the increase in profitability will not only yield greater efficiency but also improve financial performance in future. The study is conducted by considering of the data for five years from 2017 to 2021. The Pharmaceutical companies selected for study are Lupin, Glenmark, and Torrent. The financial performance of these companies is evaluated and found that the profitability of the selected pharmaceutical companies in India during the study period is satisfactory.

## KEYWORDS

financial analysis, pharmaceutical companies, profitability analysis.

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## 1. INTRODUCTION

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. In this context researcher has undertaken an analysis of financial performance of pharmaceutical companies to understand how management of finance plays a crucial role in the growth.

## 2. STATEMENT OF THE PROBLEM

The development of industries depends on several factors such as finance, personnel, technology, quality of the product and marketing. Out of these, financial and operating aspects assume a significant role in determining the growth of industries. All of the company's operations virtually affect its need for cash. Most of the data covering operational areas are however outside the direct responsibility of the financial executive. Unless the top management appreciates the value of a good financial and operating analysis, there will be continuing problems for the financial executives to find the profitability position of the concern. In this context the researcher is interested in undertaking an analysis of the financial performance of Pharmaceutical Companies. Hence, the present study entitled "An analysis of financial performance of Indian pharmaceutical companies" has been undertaken.

## 3. REVIEW OF LITERATURE

**Mohmad and Dr. Syed** (2016) analyzed the liquidity and profitability of selected companies and more specifically it sought the comparison between the liquidity and profitability performance of selected companies. There is significant difference between the performances of pharmaceutical companies on the basis of Quick Ratio. The performance of Cipla is better than that of Dr. Reddy's labs in terms of profitability.

**Ashok Kumar Panigrahi** (2017) conducted a study on Liquidity Analysis of Selected Pharmaceutical Companies: A Comparative Study over the period 2012- 2016 and concluded that liquidity ratio of Ajanta Pharma is better as compared to others. For improving performance other selected pharmaceutical companies need to have sound liquidity position. Companies should always maintain the ideal current and liquid ratio which is not sufficient in the case of the selected companies he has studied.

**Abhinna Srivastava** (2017) in his article "Diagnosing Inter Firm Profitability of Pharmaceutical Industry: An Empirical Analysis for India" have been selected top five pharma companies based on their market capitalization and concluded that Indian pharmaceutical companies are doing well on account of profitability measures; Lupin is far ahead of its competitors whereas Sun Pharma emerged as the least performer during the study period.

**Dr. Bhavik U. Swadia** (2018) in A Comparative Study of "Profitability of Selected Pharma Companies of India" analyzed the profitability of the selected pharmaceutical companies of India and to study profitability of various pharmaceutical companies. The study was conducted over a period of 10 years that is from 2007-08 to 2016-17. This study shows that pharmaceutical companies in the year 2008 had very good profitability and in the year 2015 showed very less profitability.

**Ravindra et. al.**, (2020) in their article "An Impact Assessment of Working Capital Management on Profitability of Telecom Industry Firms in India" concluded that, the other objective of WCM is to support the smooth functioning of business operations by creating prominent trade between liquidity, profitability

## 4. OBJECTIVES OF THE STUDY

The following are the specific objectives of the study

1. To analyse the profitability of selected Pharmaceutical Companies in India.
2. To analyse the factors influencing the profitability of selected Pharmaceutical Companies in India.

## 5. SCOPE OF THE STUDY

The present study aims at assessing the profitability position of selected Pharmaceutical companies in India. The study could help the company as well as the investors to understand its financial efficiency. It aims to help the management to find out its financial problems at present and the specific areas in the business, which might need some effort for more effective and efficient utilization of its resources. The study is conducted for a period of five years for selected companies

## 6. RESEARCH METHODOLOGY

The methodology adopted to analyse is through ratio analysis, and interpret general financial statements to assess the profitability position. Further a comprehensive analysis is carried by applying statistical techniques namely mean, standard deviation, co-efficient of variance and analysis of variance.

### 6.1 SAMPLE DESIGN

As the complete source list of all the Pharmaceutical Companies is not available, the data for this study is selected based on convenience sampling method. Among the companies listed with major stock exchange of India namely, Bombay Stock Exchange and National Stock Exchange of India, 3 companies with consistent financial data are selected. Certain companies are excluded owing to irregular and/or inconsistent financial data support.

The following are the selected Pharmaceutical companies of the study

1. Lupin
2. Glenmark
3. Torrent

### 6.2 SOURCES OF DATA

Secondary data is used for the study. The required data for the study is collected and compiled from [www.moneycontrol.com](http://www.moneycontrol.com) for the period from 2017-2018 to 2020-2021 which is a reliable and empowered corporate database. In addition to this, supportive data is collected from books, journals, annual reports, websites and various news-papers.

## 7. PERIOD OF THE STUDY

The study covers a period of five years from the financial year 2017 to 2021

## 8. ANALYSIS OF PROFITABILITY

The profitability of the selected companies is measured with the help of the following ratios, and the results are interpreted:

1. Gross Profit Ratio
2. Net Profit Ratio
3. Operating Profit Ratio
4. Return on Equity

**TABLE 1: GROSS PROFIT SELECTED PHARMACEUTICAL COMPANIES**

Years	Lupin Ltd	Glenmark Pharma Ltd.	Torrent Ltd
2017	19.65	30.21	29.56
2018	21.61	28.46	27.28
2019	27.68	28.59	25.45
2020	21.99	23.75	29.05
2021	36.23	37.63	26.3
Mean	25.43	29.73	27.53
SD	6.74	5.03	1.76
CV	3.78	5.91	15.68

Source: Compiled and Calculated from the data published in [www.moneycontrol.com](http://www.moneycontrol.com)

Table-1 reveals that the avg. Gross profit of selected pharmaceutical companies the Lupin Ltd is 25.43, Glenmark Pharma Ltd is 29.73 and Torrent Ltd is 27.53. Hence it concludes that the Glenmark Pharma Ltd performance is higher than the Lupin and Torrent Ltd companies during the period of 2017 to 2021.

**TABLE 3: NET PROFIT SELECTED PHARMACEUTICAL COMPANIES**

Years	Lupin Ltd	Glenmark Pharma Ltd.	Torrent Ltd
2017	11.38	21.79	11.25
2018	6.59	20.17	9.21
2019	13.55	25.72	6.85
2020	13.33	15.77	8.05
2021	24.87	26.44	4.34
Mean	13.94	21.98	7.94
SD	6.72	4.35	2.59
CV	2.08	5.05	3.07

Source: Compiled and Calculated from the data published in [www.moneycontrol.com](http://www.moneycontrol.com)

Table-2 reveals that the avg. Net profit of selected pharmaceutical companies the Lupin Ltd is 13.94, Glenmark Pharma Ltd is 21.98 and Torrent Ltd is 7.94. Hence it concludes that the Glenmark Pharma Ltd performance is higher than the Lupin and Torrent Ltd companies during the period of 2017 to 2021.

**TABLE 3: RETURN ON EQUITY SELECTED PHARMACEUTICAL COMPANIES**

Years	Lupin Ltd	Glenmark Pharma Ltd.	Torrent Ltd
2017	6.77	11.13	12.92
2018	4.16	10.24	13.47
2019	8.98	13.58	9.95
2020	8.51	9.76	11.98
2021	21.25	22.68	6.28
Mean	9.93	13.48	10.92
SD	6.6	5.35	2.92
CV	1.5	2.52	3.74

Source: Compiled and Calculated from the data published in [www.moneycontrol.com](http://www.moneycontrol.com)

Table-3 reveals that the avg. Return on equity of selected pharmaceutical companies the Lupin Ltd is 9.93, Glenmark Pharma Ltd is 13.48 and Torrent Ltd is 10.92. Hence it concludes that the Glenmark Ltd performance is higher than the Lupin and Torrent Ltd companies during the period of 2017 to 2021.

**TABLE 4: OPERATING PROFIT SELECTED PHARMACEUTICAL COMPANIES** (in Rs. Cr.)

Years	Lupin Ltd	Glenmark Pharma Ltd.	Torrent Ltd
2017	15.1	11.13	19.54
2018	16.9	10.24	18.13
2019	23.93	13.58	16.49
2020	18.12	9.76	19.34
2021	33.33	22.68	16.36
Mean	21.48	13.48	17.97
SD	7.41	5.35	1.51
CV	2.9	2.52	11.88

Table-4 reveals that the avg. operating profit of selected pharmaceutical companies the Lupin Ltd is 21.48, Glenmark Pharma Ltd is 13.48 and Torrent Ltd is 17.98. Hence it concludes that the Lupin Ltd performance is higher than the Glenmark and Torrent Ltd companies during the period of 2017 to 2021.

## 9. TESTING OF HYPOTHESIS

Ho: There is no significant between Gross profit, net profit, operating profit, Return on equity and selected companies

Ha: There is no significant between Gross profit, net profit, operating profit, Return on equity and selected companies

**TABLE 5: ONE WAY ANOVA OF THE GROSS PROFIT SELECTED COMPANIES**

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	46.14805	2	23.07403	0.938022	0.418305	3.885294
Within Groups	295.1832	12	24.5986			
Total	341.3313	14				

Source: Compiled and Calculated from secondary data

Table 5 shows the one way ANOVA of the selected companies calculated F value of the variables such as 0.938022 and p value is 0.418305 which are greater than the 0.05, F critical value of 3.885294 at 5 per cent significant level. So, there is a significant relationship between profitability ratios.

**TABLE 6: ONE WAY ANOVA OF THE NET PROFIT SELECTED COMPANIES**

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	485.6101	2	242.8051	5.555774	0.011571	3.4668
Within Groups	917.767	21	43.70319			
Total	1403.377	23				

Source: Compiled and Calculated from secondary data

Table 6 shows the one way ANOVA of the selected companies calculated F value of the variables such as 5.555774 and p value 0.011571 which are less than the 0.05, F critical value of 3.4668 at 5 per cent significant level. So, there is a significant relationship between net profit ratios.

**TABLE 7: ONE WAY ANOVA OF THE RETURN ON EQUITY SELECTED COMPANIES**

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	30.70773	2	15.35387	0.524077	0.599645	3.4668
Within Groups	615.2359	21	29.29695			
Total	645.9436	23				

Source: Compiled and Calculated from secondary data

Table7 shows the one way ANOVA of the selected companies calculated F value of the variables such as 0.524077 and p value 0.599645 which are greater than the 0.05, F critical value of 3.4668 at 5 per cent significant level. So, there is no significant relationship between return on equity ratio.

**TABLE 8: ONE WAY ANOVA OF THE OPERATING PROFIT SELECTED COMPANIES**

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	163.3474	2	81.6737	1.507227	0.244534	3.4668
Within Groups	1137.949	21	54.18807			
Total	1301.297	23				

Source: Compiled and Calculated from secondary data

Table 8 shows the one way ANOVA of the selected companies calculated F value of the variables such as 4.541584 and p value 0.033999 which are less than the 0.05, F critical value of 3.885294 at 5 per cent significant level. So, there is no significant relationship between operating profit ratios.

## 10. FINDINGS

- Gross profit of selected pharmaceutical companies the Lupin Ltd is 25.43, Glenmark Pharma Ltd is 29.73 and Torrent Ltd is 27.53. Hence it concludes that the Glenmark Pharma Ltd performance is higher than the Lupin and Torrent Ltd companies during the period of 2017 to 2021.
- Net profit of selected pharmaceutical companies the Lupin Ltd is 13.94, Glenmark Pharma Ltd is 21.98 and Torrent Ltd is 7.94. Hence it concludes that the Glenmark Pharma Ltd performance is higher than the Lupin and Torrent Ltd companies during the period of 2017 to 2021.
- Return on equity of selected pharmaceutical companies the Lupin Ltd is 9.93, Glenmark Pharma Ltd is 13.48 and Torrent Ltd is 10.92. Hence it concludes that the Glenmark Ltd performance is higher than the Lupin and Torrent Ltd companies during the period of 2017 to 2021.
- Operating profit of selected pharmaceutical companies the Lupin Ltd is 21.48, Glenmark Pharma Ltd is 13.48 and Torrent Ltd is 17.98. Hence it concludes that the Lupin Ltd performance is higher than the Glenmark and Torrent Ltd companies during the period of 2017 to 2021.
- There is no significant relationship between gross profit ratios. of selected pharmaceutical companies.
- There is a significant relationship between net profit ratio of selected pharmaceutical companies.
- There is a significant relationship between return on equity ratios of selected pharmaceutical companies.
- There is no significant relationship between operating profit ratios of selected pharmaceutical companies.

**11. CONCLUSION**

Financial management has great importance in making management decisions. The financial soundness of a company can be achieved maintaining liquidity and profitability of the company. The purpose of this study was to measure the financial performance i.e. profitability of the selected pharmaceutical companies. The analysis practically reveals that gross profit ratio, operating ratio, return on equity capital, and earnings per share, have significant effect on the net profit ratio of the selected pharmaceutical companies during the study period. However, profitability of the selected pharmaceutical companies in India during the study period is satisfactory. During the period of study there were a few ups and downs in the profitability but it did not affect the operations of the companies to a great extent. If the Pharmaceutical Companies has to perform well, it has to invest more capital and has to do more sales, only then it will improve its performance level.

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