

# PROFITABILITY ANALYSIS OF INDIAN PHARMACEUTICAL INDUSTRY - A CASE STUDY OF NATCO PHARMA PRIVATE LIMITED

**Dr. Sasi Bhushan Mamilla**

Assistant Professor, Ramachandra College of Engineering, Eluru, Andhra Pradesh, India

**Naga Vanisri Yarra**

Assistant Professor, Ramachandra College of Engineering, Eluru, Andhra Pradesh, India

## *Abstract*

Under the Make in India initiative, the Government of India aims to increase the share of the manufacturing sector to the gross domestic product (GDP) to 25 per cent by 2022, from 16 per cent, and to create 100 million new jobs by 2022. The Pharmaceutical Industry in India is one of the largest in the world It ranks 4th in the world, pertaining to the volume of sales. The contribution of pharmaceutical sector in India's GDP is 2% and 12% of manufacturing sector GDP. The objective of the study is to assess the Profitability and financial performance of NATCO Pharma Private Limited with special reference to selected financial ratios. The study is based on secondary data that has been collected from annual reports of the NATCO Pharma Private Limited. This study covers a period of five financial years i.e. from 2013-14 to 2017-18. Ratio analysis, Mean and Chi-square tests are used to analyze the data. This study would be useful to the Pharmaceutical sector entrepreneurs as well as government for strengthening the Pharmaceutical sector in India.

**Key words:** Pharmaceutical, Make in India, Financial performance.

## **I. BACKGROUND OF THE STUDY**

India is the largest provider of generic drugs globally. Indian pharmaceutical sector industry supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in UK. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists

and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms. The pharmaceutical sector was valued at US\$ 33 billion in 2017. The country's pharmaceutical industry is expected to expand at a CAGR of 22.4 per cent over 2015–20 to reach US\$ 55 billion. India's pharmaceutical exports stood at US\$ 17.27 billion in FY18 and have reached US\$ 19.14 billion in FY19.

## **II. STATEMENT OF THE PROBLEM**

The Indian pharma industry faces lack of research components and real time good manufacturing practices. This has always been a difficulty for the pharma industry. Pharma companies should built in such a way that they are equipped with better operational facilities and abilities. Indian pharma companies are not getting proper profits, their earnings are basically very low as compared to their counterparts in other countries such as the US. Their income is not sufficient enough to invest money on research component. The pharma industry is dependent on China for the supply of raw material for generic medicines production. India needs user friendly government policy for the common man to establish small scale, raw material manufacturing units/ incubators in all states of the country to improve availability of raw materials to manufacture generic drugs at affordable rates.

## **III. SCOPE OF THE STUDY**

The present study determines the profitability analysis and financial performance of NATCO Pharma Private Limited. It facilitates that to understand the overall financial soundness by examining the selected financial ratios.

## **IV. OBJECTIVES OF THE STUDY**

1. To investigate the profitability and overall financial performance of NATCO Pharma Private Limited during the period of study.
2. To find out the efficiency of assets utilization in NATCO Pharma Private Limited.
3. To study the solvency capacity of the NATCO Pharma Private Limited during the period of study.

## V. MATERIALS AND METHODS

Methodology of the study explained under the heads sources of data, period of the study, techniques of analysis and statistical tools used.

## VI. SOURCES OF DATA COLLECTION

The main sources of data used for the study is secondary, derived from the annual reports of NATCO Pharma Private Limited i.e. Trading account, profit and loss account and balance sheets, Journals and previous research works.

## VII. PERIOD OF THE STUDY

The present study covers a period of five financial years i.e. 2013-14 to 2017-18.

## VIII. TECHNIQUES OF DATA ANALYSIS

Data gathered from different sources is analyzed by using the techniques of ratio analysis, mean and Chi-Square test are used for data analysis.

## IX. RESULTS AND DISCUSSION

**Table: 1 Analysis of Gross Profit Margin (Figures Rs in Millions)**

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Gross profit	4,957	5,886	7,582	14,610	17,888
Net sales	7,447	8,382	11,794	20,650	22,020
Gross Profit Margin	<b>66.56</b>	<b>70.22</b>	<b>64.29</b>	<b>70.75</b>	<b>81.24</b>

*Source:* Annual Report of the NATCO.

The above table represents the gross profit margin, the gross profit margin is Rs. 66.56 Millions during 2013-14. It has shown an increasing trend during the period of 2014-15 with Rs.70.22 Millions. It has decreased for the year 2015-16 to Rs. 64.29 Millions. Finally It has shown an increasing trend during the next two years with Rs.70.75 Millions and Rs.81.24 Millions. The average gross profit margin during the study was Rs. 70.61 Millions.

## Hypotheses

$H_0$  = Gross Profit margin is not uniform during the period of study.

$H_A$  = Gross Profit margin is uniform during the period of study.

From the study it is clear that the calculated value of Chi-Square test (2.40) is less than the critical value (9.49) at 5% level of significance and four degrees of freedom. Hence, accept null hypotheses. It can be concluded that gross profit margin is not uniform during the period of study.

**Table: 2 Analysis of Net Profit Margin (Figures Rs in Millions)**

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Net profit	1,027	1,346	1,552	4,815	6,952
Net sales	7,447	8,382	11,794	20,650	22,020
Net Profit Margin	<b>13.79</b>	<b>16.06</b>	<b>13.16</b>	<b>23.32</b>	<b>30.74</b>

Source: Annual Report of the NATCO.

The above table represents the net profit margin, the net profit margin is Rs. 13.79 Millions during 2013-14. It has shown an increasing trend during the period of 2014-15 with Rs.16.06 Millions. It has decreased for the year 2015-16 to Rs. 13.16 Millions. Finally It has shown an increasing trend during the next two years with Rs.23.32 Millions and Rs.30.74 Millions. The average gross profit margin during the study was Rs. 19.41 Millions.

## Hypotheses

$H_0$  = Net Profit margin is not uniform during the period of study.

$H_A$  = Net Profit margin is uniform during the period of study.

From the study it is clear that the calculated value of Chi-Square test (11.62) is greater than the critical value (9.49) at 5% level of significance and four degrees of freedom. Hence, reject null hypotheses. It can be concluded that net profit margin is uniform during the period of study.

**Table: 3 Analysis of Capital Turnover (Figures Rs in Millions)**

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Net Sales	7,447	8,382	11,794	20,650	22,020
Net Capital Employed	8,834	9,703	13,309	16,911	31,231
Ratio	<b>0.84</b>	<b>0.86</b>	<b>0.89</b>	<b>1.22</b>	<b>0.70</b>

Source: Annual Report of the NATCO.

The above table represents Capital turnover ratio, which is measured with the help of net sales to net capital employed. The capital turnover ratio during the year 2013-14 was Rs. 0.84 Millions, it has increased for the next three years with Rs. 0.86 Millions, Rs. 0.89 Millions and Rs. 1.22 Millions but during the year 2017-18 capital turnover ratio decreased Rs. 0.70 Millions. The average capital turnover ratio during the period of study was Rs. 0.90 Millions.

## Hypotheses

$H_0$  = Capital turnover ratio is not uniform during the period of study.

$H_A$  = Capital turnover ratio is uniform during the period of study.

From the study it is clear that the calculated value of Chi-Square test (0.16) is less than the critical value (9.49) at 5% level of significance and four degrees of freedom. Hence, accept null hypotheses. It can be concluded that Capital turnover ratio is not uniform during the period of study.

**Table: 4 Analysis of Solvency capacity (Figures Rs in Millions)**

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Debt	4,973	5,628	5,453	6,803	6,547
Equity	7,258	8,461	12,983	16,493	30,722
Solvency Capacity	<b>0.68</b>	<b>0.67</b>	<b>0.42</b>	<b>0.41</b>	<b>0.21</b>

Source: Annual Report of the NATCO.

The above table represent solvency capacity of the firm, which is examined with the help of debt to equity ratio. The debt-equity ratio was Rs. 0.68 Millions during 2013-14, it has

decreased for the next four years with Rs. 0.67 Millions, Rs. 0.42 Millions, Rs. 0.41 Millions and Rs. 0.21 Millions. The average solvency ratio during the period of study was Rs. 0.48 Millions.

### **Hypotheses:**

$H_0$  = Solvency capacity is not uniform during the period of study.

$H_A$  = Solvency capacity is uniform during the period of study.

From the study it is clear that the calculated value of Chi-Square test (0.33) is less than the critical value (9.49) at 5% level of significance and four degrees of freedom. Hence, accept null hypotheses. It can be concluded that solvency ratio is not uniform during the period of study.

## **X. FINDINGS AND CONCLUSION**

Profitability and overall financial performance of the NATCO Pharma Private Limited were examined by using gross profit ratio, net profit ratio, capital turnover ratio and debt-equity ratio. Gross profit margin, Capital turnover and solvency capacity are not uniform during the period of study, the net profit margin was uniform during the period of study. The gross profit margin was increased Rs. 66.56 Millions to Rs. 81.24 Millions during the study period. It indicates company gross profit margin is good. The net profit margin increased 13.79 Millions to 30.74 Millions during the study period. It represents the company net profit was also good. Capital turnover Ratio is increasing Rs. 0.84 Millions to Rs. 1.22 Millions during the study period from 2013-14 to 2016-17 but 2017-18 it was decreased 0.70 Millions. The solvency capacity of the company was continuously declining during the period of the study. Hence, the profitability and overall financial performance of the NATCO Pharma Private Limited was good during the period of study. The company has to make more initiatives to reduce its cost of production for improving net profit margin.

## **XI. LIMITATIONS AND SCOPE FOR FURTHER RESEARCH**

This study has the following limitations: Study was based on secondary sources of data. The results cannot be generalized for other sectors and other countries. The present study revolves around the area of profitability and financial performance of Indian Pharmaceutical

industry a case study of NATCO Pharma Private Limited during 2013-14 to 2017-18. Further research can be done on the entire Pharmaceutical sector. Research can also light on areas like sugar sector, Banking sector, Dairy sector, Information Technology Industry and etc.

### ***References:***

1. Ananya Mitra, Sonali Rath, & Jayant Kumar Nayak. (2017). Impact of demonetization on cashless transactions. International Journal of Engineering and Management Invention, 2(03), 246-251.
2. Howard and Upton, 'Introduction to Business Finance' (New York: McGraw Hill, 1961).
3. Khan.M.Y and P.K. Jain, 2010, 'Financial Management, Text and Problems', Tata McGraw Hill Publishing Company Ltd., New Delhi.
4. Kothari, C.R. 2008, 'Research Methodology methods & techniques', second edition, New age international publishers, Delhi.
5. Maheswari S.N, 'Principles of Management Accounting', Sultan Chand & Sons Educational Publishers", New Delhi.
6. OmPrakash, 'Ratio Analysis for Management in new prospective- Management ratio', Himalaya publishing House, New Delhi.
7. Pandey, I.M. 2010, 'Financial Management', Ninth Edition, Vikas Publishing, House Pvt.Ltd, NewDelhi.