



A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF CADILA HEALTHCARE LIMITED AND TORRENT PHARMACEUTICALS LIMITED IN GUJARAT

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ABSTRACT

The present study is descriptive in nature which is carried out to compare the financial position of Cadila healthcare Ltd. and Torrent pharmaceutical Ltd. in Gujarat state. To measure and compare the profitability, data of Gross Profit Ratio, Net Profit Ratio, Return on Capital Employed Ratio and Return on Net worth Ratio are collected. The secondary data have been collected from various web sites and annual financial statements of the selected companies. The reference period of the study is of five years which is from the financial year 2011-12 to 2015-16. Population of the study is all pharmaceuticals companies of Gujarat which are registered at NSE/BSE. It has been found that there is an improvement in financial position of both the companies and there is no significant difference in profitability performance between CHL and TPL as the null hypothesis are accepted.

Key Words: Gross Profit Ratio, Net Profit Ratio, Return on Capital Employed Ratio and Return on Net worth Ratio.

INTRODUCTION

Financial performance means measuring the results of policies and day to day operations of a firm in monetary terms. It is the performance of a business over a specified period of time which is expressed in terms of overall profit generated or losses incurred that time. It is necessary to evaluate the financial performance of any company as it helps to judge the results of business strategies and activities in monetary terms.

So now the question is that how to measure the profitability. Financial performance of any company is mostly measured by calculating the amount of profit and profitability. But before evaluating the financial performance of any company one should have knowledge about the basic difference between the term profit and profitability. The profit is an absolute number which is equal to revenue minus expenses. If a company

has Rs. 200 in revenue and Rs. 180 expenses, its profit is Rs. 20. Profitability is a relative number (a percentage) and expresses the ratio between profit and revenue. Profitability is equal to profit divided by revenue multiplied with 100. In the above case, Profitability = $20 / 200 * 100 = 10\%$. So you have Rs. 20 profit and 10% profitability.

So here a small attempt has been made to measure and compare the profitability of two pharmaceutical companies of Gujarat state that is Cadila Healthcare Limited and Torrent Pharmaceuticals Limited. Cadila Healthcare (CHL), incorporated in 1995, is part of the Zydus Cadila Group. The company operates in areas of active pharmaceutical ingredients (API) to formulations and animal health products to cosmeceuticals. Cadila Pharmaceuticals Ltd. is one of the largest privately held pharmaceutical companies in India, headquartered at Ahmadabad, in the state of Gujarat. Torrent Pharmaceuticals Limited is a player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS) and has presence in gastro-intestinal, diabetology, anti-infective and pain management segments. Being the flagship of the Torrent Group, the company has six marketing divisions, each catering to defined therapeutic segment. Torrent Pharmaceuticals was incorporated in 1972 and has its manufacturing facilities and office located in Gujarat.

LITERATURE REVIEW

Prof. Ketan H. Popat (2012) has carried out a research on the comparative study of profitability analysis of selected steel industries from the study period 2006-07 to 2010-11. For that various profitability ratios are used like PBDT to Gross Sales, PAT to Gross Sales, PAT to Net Sales, PAT to Shareholders fund and PAT to Total Assets. It can be conclude that the profitability of Tata Steel Company is better in overall selected steel companies. **Sirajbeg Salimbeg Mirza and Dhartibahen Mansukhbhai Chauhan (2013)** have undertaken the study of profitability analysis of Cadila Healthcare Ltd. & Alembic Ltd. The study is entirely based on secondary data collected from annual reports of the above both pharmaceutical companies from the period begin from 2007-08 to 2011-12.. The data can be analyzed various profitability ratios like Gross Profit Margin, Operating Profit Margin, Net Profit Margin, ROCE and RONW. Hypothesis has been tested by using t-test. The major findings and conclusions of this study the Operating Profit Margin ratios, Gross Profit Margin ratios and ROCE highly variability trend in CHL whiles it shows decreasing trend in Alembic during the study period. **B. Kayathiri Bai and V. Buvaneshwaran (2015)** have examined this study a comparative study of profitability analysis of selected hotel industries. The present study is based on secondary data collected from annual reports of selected top five hotels the period begin from 2011-12 to 2015-16. The purpose of this study is to know and compare the profitability performance with the help of profitability ratios of selected hotel industries. The data can be analyzed various profitability ratios like Gross Profit ratio, Net Profit ratio and Operating Profit ratio. After the data analyzed then determine the hypothesis. Hypothesis can be tested

by using ANOVA test. It can be conclude that the profitability analysis of the royal orchid hotel is strong position than Jindal hotel. The lord Ishwar and TGB are on an average and Leela hotel is in the weak position as compare to this five hotels.

RESEARCH METHODOLOGY

The present study is analytical in nature. To measure and compare the profitability, data of Gross Profit Ratio, Net Profit Ratio, Return on Capital Employed Ratio and Return on Net worth Ratio are collected. The secondary data have been collected from various web sites and annual financial statements of the selected companies. The reference period of the study is of five years which is from the financial year 2011-12 to 2015-16. Population of the study is all pharmaceuticals companies of Gujarat which are registered at NSE/BSE. In these study two companies of pharmaceuticals industry has been taken as a sample by using convenient sampling technique. The sample companies are Cadila Healthcare Limited and Torrent Pharmaceuticals Limited.

OBJECTIVES OF THE STUDY:

The main objectives of the study are as under:

1. To know the profitability performance of the Cadila healthcare limited and Torrent pharmaceuticals limited in Gujarat.
2. To compare profitability of the Cadila healthcare limited and Torrent pharmaceuticals limited in Gujarat.
3. To give suggestions to improve the profitability performance of the Cadila healthcare limited and Torrent pharmaceuticals limited in Gujarat.

FORMULATION OF HYPOTHESIS:

H₀ (Null Hypothesis): There is no significant difference in profitability performance among Cadila healthcare Ltd and Torrent pharmaceuticals Ltd during the study period.

H₁ (Alternative Hypothesis): There is significant difference in profitability performance among Cadila healthcare Ltd and Torrent pharmaceuticals Ltd during the study per

DATA ANALYSIS:

Table 1.1 shows the GPR & NPR of CHL and TPL.

Year	Gross Profit Ratio		Net Profit Ratio	
	CHL	TPL	CHL	TPL
2011-12	18.09	16.20	20.82	14.99
2012-13	16.03	21.96	13.56	19.75
2013-14	16.81	29.16	22.35	22.65
2014-15	25.02	19.08	24.05	17.93
2015-16	33.00	44.29	28.10	32.48
Average	21.79	26.14	21.78	21.56

Table 1.1 shows the GPR and NPR of CHL and TPL. It is cleared from the table that G.P.R and NPR of CHL as well as TPL shows mixed trend as during the study period of five years GPR and NPR of both the companies increased and decreased. But

overall both the companies have been growing as GPR of CHL and TPL was 18.09 % and 16.20 % in the year 2011-12 while 33.00 % and 44.29 % in the year 2015-16 respectively. The same is the thing for NPR also (20.82 % and 14.99 % in the year 2011-12 and 28.10 % and 32.48 % in 2015-16 of CHL and TPL respectively). Both the companies are equal in earning profitability as it is almost same average of NPR 21.78 % and 21.56 % of CHL and TPL respectively.

Table 1.2 shows the ROCE & RONW of CHL and TPL.

Year	Return on Capital Employed Ratio		Return on Net Worth Ratio	
	CHL	TPL	CHL	TPL
2011-12	22.02	26.72	25.71	23.85
2012-13	14.09	33.14	17.12	33.09
2013-14	19.60	31.33	24.89	33.29
2014-15	26.04	19.41	28.08	23.03
2015-16	34.24	48.90	32.21	47.83
Average	23.20	31.90	25.60	32.22

From the above table 1.2 it can be depicted that both the companies have utilized their long term fund very efficiently as ROCE of both the companies increased during study period (22.02 % of CHL and 26.72 of TPL in 2011-12 while 34.24 of CHL and 48.90 of TPL in 2015-16. The same is the thing in case of return on net worth also as it is increased for both the companies during study period. But TPL shows higher efficiency in utilizing long term fund as it has higher ratio of ROCE and RONW than CHL.

HYPOTHESIS TESTING:

H₀: There is no significant difference in gross profit ratio among CHL and TPL.

H₁: There is significant difference in gross profit ratio among CHL and TPL.

Table 5.8: t-Test of Gross Profit Ratio of CHL and TPL

t-Test: Two-Sample Assuming Equal Variances		
	CHL	TPL
Mean	21.79	26.138
Variance	51.94125	126.16562
Observations	5	5
Pooled Variance	89.053435	
Hypothesized Mean Difference	0	
Df	8	
t Stat	-0.728507793	
P(T<=t) one-tail	0.243538786	
t Critical one-tail	1.859548033	
P(T<=t) two-tail	0.487077573	
t Critical two-tail	2.306004133	

From the above table t-value of two-tail is 2.31 with p-value of two-tail 0.487, as p-value is higher than 0.05, so the null hypothesis is accepted and concluded that there is no significant difference in gross profit ratio among CHL and TPL.

H₀₂: There is no significant difference in net profit ratio among CHL and TPL.

H₂: There is significant difference in net profit ratio among CHL and TPL.

Table 5.9: t-Test of Net Profit Ratio of CHL and TPL

t-Test: Two-Sample Assuming Equal Variances		
	CHL	TPL
Mean	21.782	21.56
Variance	28.46337	45.0131
Observations	5	5
Pooled Variance	36.738235	
Hypothesized Mean Difference	0	
Df	8	
t Stat	0.057911369	
P(T<=t) one-tail	0.477619802	
t Critical one-tail	1.859548033	
P(T<=t) two-tail	0.955239605	
t Critical two-tail	2.306004133	

From the above table t-value of two-tail is 2.31 with p-value of two-tail 0.955, as p-value is higher than 0.05, so the null hypothesis is accepted. It means that there is no significant difference in net profit ratio among CHL and TPL.

H₀₃: There is no significant difference in ROCE ratio between CHL and TPL.

H₃: There is significant difference in ROCE ratio between CHL and TPL.

Table 5.11: t-Test of Return on Capital Employed Ratio of CHL and TPL

t-Test: Two-Sample Assuming Equal Variances		
	CHL	TPL
Mean	23.198	31.9
Variance	56.82292	118.42375
Observations	5	5
Pooled Variance	87.623335	
Hypothesized Mean Difference	0	
Df	8	
t Stat	-1.469870907	
P(T<=t) one-tail	0.089897647	
t Critical one-tail	1.859548033	
P(T<=t) two-tail	0.179795295	
t Critical two-tail	2.306004133	

From the above table t-value two-tail is 2.31 with p-value of two-tail 0.180 which is higher than 0.05, so the null hypothesis is accepted and concluded that there is no significant difference in return on capital employed ratio among CHL and TPL.

H₀₄: There is no significant difference in return on net worth ratio among CHL and TPL.

H₄: There is significant difference in return on net worth ratio among CHL and TPL.

Table 5.12: t-Test of Return on Net worth Ratio of CHL and TPL

t-Test: Two-Sample Assuming Equal Variances		
	CHL	TPL
Mean	25.602	32.218
Variance	30.56727	100.02172
Observations	5	5
Pooled Variance	65.294495	
Hypothesized Mean Difference	0	
Df	8	
t Stat	-1.294575004	
P(T<=t) one-tail	0.115790282	
t Critical one-tail	1.859548033	
P(T<=t) two-tail	0.231580563	
t Critical two-tail	2.306004133	

From the above table t-value of two-tail is 2.31 with p-value of two-tail 0.232, as p-value is higher than 0.05, so the null hypothesis is accepted. It means that there is no significant difference in return on net worth ratio among CHL and TPL.

No	Hypothesis	P-value	Result
H ₀₁	There is no significant difference in gross profit ratio among CHL and TPL.	0.487 > 0.05	Accepted
H ₀₂	There is no significant difference in net profit ratio among CHL and TPL.	0.955 > 0.05	Accepted
H ₀₃	There is no significant difference in return on capital employed ratio among CHL and TPL.	0.180 > 0.05	Accepted
H ₀₄	There is no significant difference in return on net worth ratio among CHL and TPL.	0.232 > 0.05	Accepted

CONCLUSION

As stated earlier analysis and interpretation is done firstly on financial position of CHL and TPL by using various ratios like GPR, NPR, ROCE and RONW. This study

also compared the profitability of CHL and TPL in Gujarat. The study period commencing from 2011-12 to 2015-16. First attempt has been made to know the financial position of two selected companies. It has been found that all the ratios related to profitability are on increasing trend means there is an improvement in financial position of the two companies during study period. The second attempt has been also made to know the financial position of the selected companies is differing or not. It is concluded that there is no significant difference in profitability performance between CHL and TPL as the null hypothesis are accepted.

RECOMMENDATIONS

Gross profit ratio of TPL is higher than CHL so CHL should try to reduce/control cost of goods sold and thereby to improve its gross profit ratio. Even though the gross profit ratio of TPL is higher than CHL, Net profit ratio of CHL as well as TPL is almost same means TPL incurred higher operating expenses than CHL. So in order to maintain NPR it should reduce unnecessary operating cost. CHL should use long term fund as effectively as possible so that it can give favorable rate of return to their equity shareholders as ROCE and Return on net worth of CHL are lower than TPL.

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