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PROFITABILITY ANALYSIS OF CADILA HEALTHCARE LTD. & ALEMBIC LTD.

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Abstract:

The purpose of this study is to find out the profitability ratios of selected companies. The main objective of this study is to comparative analysis of profitability ratios of this two selected pharmaceutical companies. This paper consists of introduction, objective of the study, types of data, and profile of Cadila Healthcare Ltd and Alembic Pharmaceutical Ltd, analysis of different profitability ratio and finding and conclusions.

KEYWORDS:

Profitability Ratio, Profit Margin, Capital Employed, Net Worth .

INTRODUCTION :

Profitability Ratios are the Financial Ratios which talk about the profitability of a business with respect to its sales or investments. Since the ratios measure the efficiency of operations of a business with the help of profits, they are called profitability ratios. They are quite useful tools to understand the efficiencies or inefficiencies of a business and thereby assist management and owners to take corrective actions. The purpose behind calculating the profitability ratios is to measure the operating efficiency of a business and returns which the business generates. The different stakeholders of a business are interested in the profitability ratios for different purposes. The stakeholders of a business include owners, management, creditors, lenders etc.

OBJECTIVE OF THE STUDY:

The main objective of the study is to comparative analysis of profitability ratios of selected companies. This objective has been approached by analyzing the various ratios of the selected companies which include operating profit margin, gross profit margin, net profit margin, return on capital employed and return on net worth.

TYPES OF DATA:

In present research the data is taken from the secondary sources. The data is taken from the annual report of the selected companies. Last five years (2007 – 08 to 2011 -12) data is taken for the clear analysis of the profitability ratios.

CADILAHEALTHCARE 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

PROFITABILITY ANALYSIS OF CADILA HEALTHCARE LTD. & ALEMBIC LTD.



cosmeceuticals. Cadila Pharmaceuticals Ltd. is one of the largest privately held pharmaceutical companies in India, headquartered at Ahmedabad, in the state of Gujarat. Over the last five decades, it has been developing and manufacturing pharmaceutical products and selling and distributing these in over 50 countries around the world.

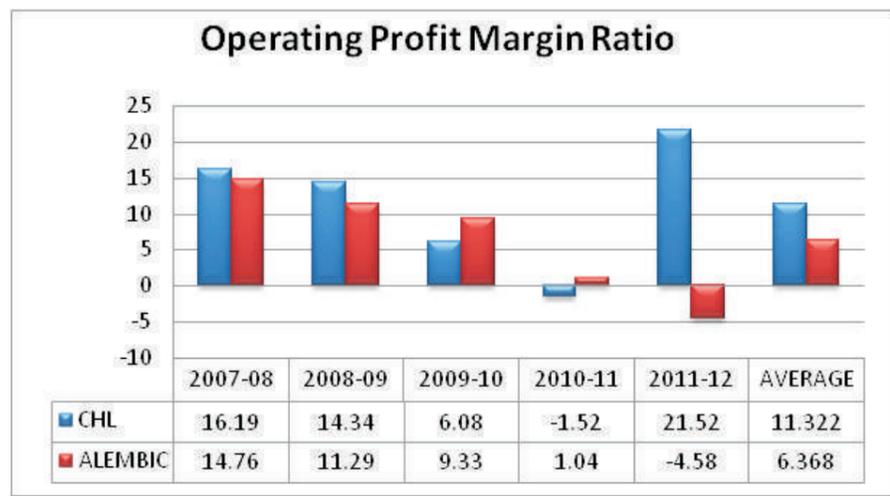
Alembic Pharmaceuticals Limited:

Established in 1907, Alembic Pharmaceuticals Limited is a leading pharmaceutical company in India. The Company is vertically integrated with the ability to develop, manufacture and market pharmaceutical products, pharmaceutical substances and Intermediates. Alembic is the market leader in the Macrolides segment of anti-infective drugs in India. Alembic's manufacturing facilities are located in Vadodara and Baddi in Himachal Pradesh. The plant at Vadodara has the largest fermentation capacity in India.

PROFITABILITY RATIO ANALYSIS OF SELECTED COMPANIES:

1. Operating Profit Margin Ratio: This ratio is also known as Operating Income Margin, and Returns on Sales (ROS) — is the ratio of operating income divided by net sales, usually presented in percentage.

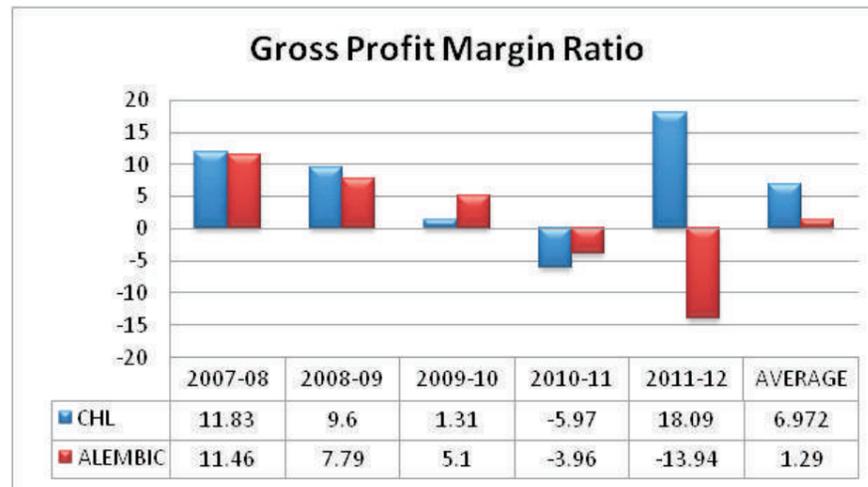
Operating Profit Margin = Operating Income / Net Sales



From the above table we can see that the maximum Operating Profit Margin in CHL was 16.19% in 2007-08 and in Alembic it was 14.76% in 2007-08. The minimum Operating Profit Margin in CHL was -1.52% in 2010-11 and in Alembic it was -4.58% in 2011-12. The average Operating Profit Margin in CHL was 11.32% and in Alembic it was 6.37%.

1. Gross Profit Margin: Gross profit is what you have left over after you pay all your variable costs or costs associated with producing your product or service. It is important to track the gross profit margin in order to track profitability.

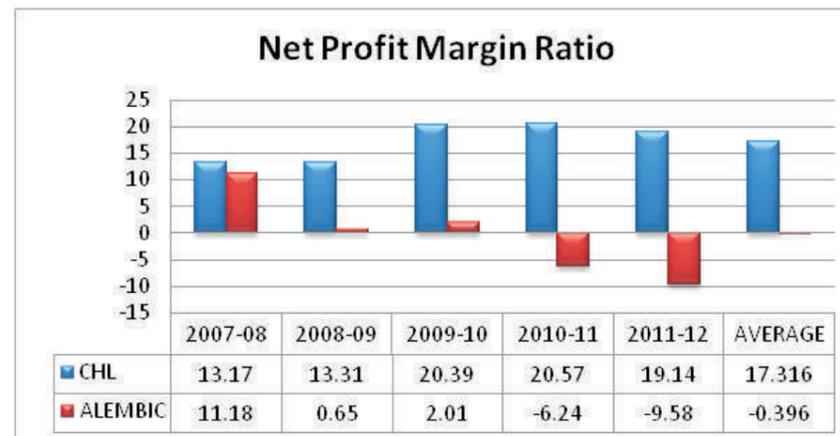
Gross Profit Margin = Gross Profit / Sales Revenue



From the above table we can see that the maximum Gross Profit Margin in CHL was 18.09% in 2011-12 and in Alembic it was 11.46% in 2007-08. The minimum Gross Profit Margin in CHL was -5.97% in 2010-11 and in Alembic it was -13.94% in 2011-12. The average Gross Profit Margin in CHL was 6.97% and in Alembic it was 1.29%.

2. Net Profit Margin: Net profit margin indicates how well the company converts sales into profits after all expenses are subtracted out. Since industries are so different, the net profit margin is not very good at comparing companies in different industries. It is good, however, at comparing companies in the same industry if you want to look at the bottom line.

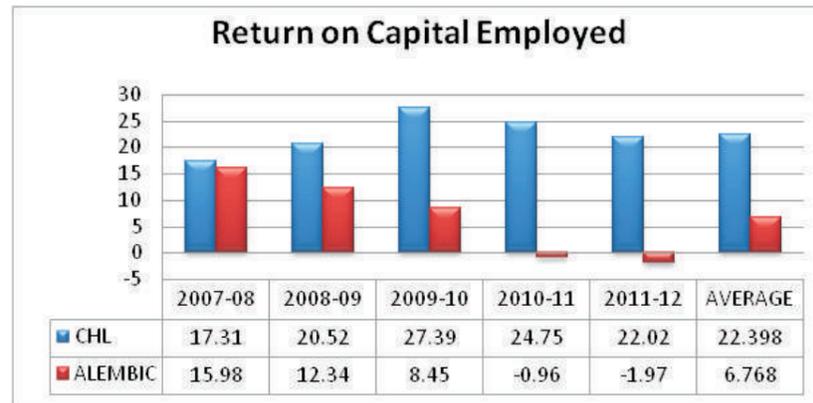
Net Profit Margin = Net Income / Net Sales



From the above table we can see that the maximum Net Profit Margin in CHL was 20.57% in 2010-11 and in Alembic it was 11.18% in 2007-08. The minimum Net Profit Margin in CHL was -13.17% in 2007-08 and in Alembic it was -9.58% in 2011-12. The average Net Profit Margin in CHL was 17.32% and in Alembic it was -0.40%.

4. Return on Capital Employed: It is similar to Return on Assets (ROA), but takes into account sources of financing. Net Operating Profit after Tax (NOPAT) is equal to EBIT * (1 - tax) - the return on the capital employed should be measured in after tax terms.

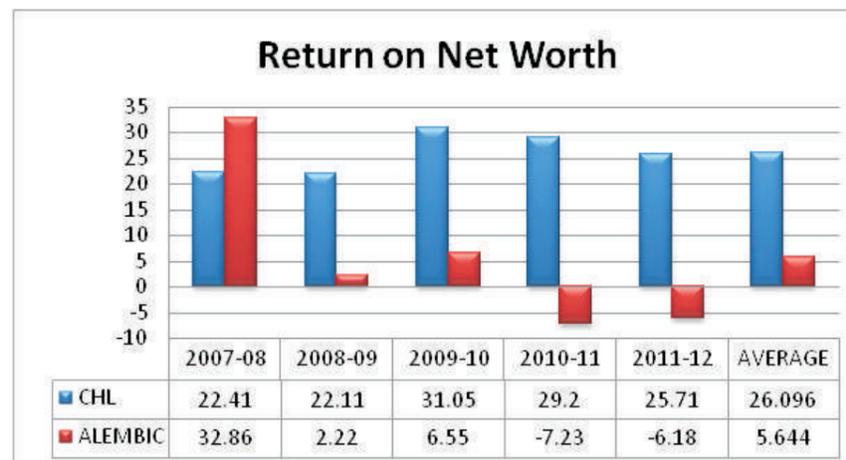
ROCE = NOPAT / Capital Employed



From the above table we can see that the maximum Return on Capital Employed in CHL was 27.39% in 2009-10 and in Alembic it was 15.98% in 2007-08. The minimum Return on Capital Employed in CHL was 17.31% in 2007-08 and in Alembic it was -1.97% in 2011-12. The average Return on Capital Employed in CHL was 22.40% and in Alembic it was 6.77%.

5. Return on Net Worth: Return on Net Worth reveals how much profit a company generates with the money shareholders have invested. It is also known as return on equity (ROE). It is calculated as shown here:

RONW = Net Income / Shareholder's Equity



From the above table we can see that the maximum Return on Net Worth in CHL was 31.05% in 2009-10 and in Alembic it was 32.86% in 2007-08. The minimum Return on Net Worth in CHL was 22.11% in 2008-09 and in Alembic it was -7.23% in 2010-11. The average Return on Net Worth in CHL was 26.10% and in Alembic it was 5.64%.

FINDINGS & CONCLUSIONS:

1. The Operating Profit Margin ratios highly fluctuated trend in CHL whiles it shows decreasing trend in Alembic during the study period.
2. Operating Profit Margin was negative in CHL in 2010-11 and it was negative in Alembic in 2011-12.
3. The Average Operating Profit Margin was comparatively high in CHL (11.32%) as against Alembic

- (6.37%). It means CHL has good cost control or their sales are increasing faster than cost in comparison with Alembic.
4. The Gross Profit Ratio shows highly fluctuated trend in CHL while it shows decreasing trend in Alembic during the study period.
5. The Gross Profit ratio was negative in CHL (-5.97%) in 2010-11 and it was negative in Alembic (-3.96%) in 2010-11 and (-13.94%) in 2011-12.
6. The average Gross Profit Ratio was comparatively high in CHL (6.97%) as against Alembic (1.29%). It means that CHL has greater efficiency in turning raw materials into income in comparison with Alembic.
7. The Net Profit Margin shows increasing trend in CHL in first four years of the study period while it shows fluctuated trend in Alembic during the study period.
8. The Net Profit Margin was negative in Alembic (-6.24%) in 2010-11 and (-9.58%) in 2011-12.
9. The average Net Profit Margin was comparatively high in CHL (17.32%) as against Alembic (-0.40%). It means that there is high risk in Alembic as compare with CHL.
10. The Return on Capital Employed shows fluctuated trend in CHL while it shows decreasing trend in Alembic during the study period.
11. The Return on Capital Employed was negative in Alembic (-0.96%) in 2010-11 and (-1.97%) in 2011-12.
12. The Average Return on Capital Employed was comparatively high in CHL (22.40%) as against Alembic (6.77%).
13. The Return on Net Worth shows fluctuated trend in CHL and Alembic during the study period.
14. The Return on Net Worth was negative in Alembic (-7.23%) in 2010-11 and (-6.18%) in 2011-12.
15. The Average Return on Net Worth was comparatively high in CHL (26.10%) as against Alembic (5.64%).

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