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PROFITABILITY ANALYSIS: A COMPARATIVE STUDY OF CIPLA LTD. AND IPCA LABORATORIES LTD.

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Abstract

The present study analyzes the profitability of Cipla Ltd. and IPCA Laboratories Ltd. for the past five years. Profitability is the financial measure of the company's ability to earn profit or gain. In other words an analysis of cost and revenue of the firm which determines whether or not the firm is profiting is known as profitability analysis. The profitability may be calculated through profitability ratio such as gross profit ratio, net profit ratio, return on total assets, return on equity, return on capital employed etc.

Keywords: *Pharmaceutical Companies, Profitability Analysis, Gross Profit, Net Profit, Working Capital.*

Introduction

In the present time every business unit is interested in increasing profitability consistently, for which the business struggle to identify the right strategy. Therefore it is very necessary to analyze and interpret the profitability in a organization. The business firms are generally expressed with the view of profit earning from business operation. Greater the volume of profit, higher the efficiency of concern. The profit of a business may be measured by studying the profitability determination using various ratios. Profitability is the profit earning capacity which is a crucial factor contributing to the survival of the business entity. It reflects the optimum utilization of available resources by the company. It acts as a measure to compute the operational efficiency and performance of the company. Higher value of profitability indicates the higher performance or vice-versa. There is difference between profit and profitability. Profit is the excess of revenue over the cost while profitability is the ability to make profit. The profitability may be assessed through gross profit ratio, net profit ratio, return on capital employed, return on equity, return on total assets, opertating ratio. The perpetual existence of the entity depends on the profit earning capacity of the entity.

Review of Literature

Sharma and Reddy (1985) have identified the factors influencing liquidity by conducting a study on the liquidity position of pharmaceutical companies for a period of eight years. It concluded that government policy with respect to input and outputs has the significant influence on the liquidity position of the company.

Eljelly (2004) in his study empirically examined the relationship between profitability and liquidity, as measured by current ratio and cash gap (cash conversion cycle) on a sample of 929 joint stock companies in Saudi Arabia. Using correlation and regression analysis, Eljelly found significant negative relationship between the firm's profitability and its liquidity level, as measured by current ratio. This relationship is more pronounced for firms with high current ratios and long cash conversion cycles. At the industry level, however, he found that the cash conversion cycle or the cash gap is of more importance as a measure of liquidity than current ratio that affects profitability. The firm size variable was also found to have significant effect on profitability at the industry level.

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