



A study on ratio analysis of select CNX Pharma Stocks

KEYWORDS

Gross Profit, Net Profit, Market capitalization.

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ABSTRACT

The shareholders, creditors, suppliers, managers, employees, tax authorities and others are interested in broadly knowing about the firm is doing and what is its financial condition. Financial ratio helps an investor to identify the healthiness of a firm. The top three companies by market capitalization are taken for study viz, Sun Pharma, Dr.Reddys and Cipla. Gross Profit ratio and Net profit ratio are taken for the study. ANOVA and correlation are used in this study to identify variance and it is found that there is a considerable variance among companies.

INTRODUCTION

The Pharmaceutical industry in India is the world's third-largest in terms of volume. The Indian pharmaceutical market is likely to grow at a rate of 14-17 per cent in the coming years. India is now among the top five pharmaceutical emerging markets of the world. The shareholders of a firm, viz., shareholders, creditors, suppliers, managers, employees, tax authorities and others are interested in broadly knowing about the firm is doing and what is its financial condition. Long term shareholders and managers who want to make a career with the firm are interested in the profitability and growth of the firm over an extended period of time.

Ratio analysis is a powerful tool of financial analysis. A ratio can be defined as "relationship between two or more things. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

Financial ratio analysis is a study of ratio between various items or groups of items in financial statements. Financial ratios have been classified in several ways viz., Liquidity ratio, Leverage ratio, Profitability ratio etc. The nature of the financial ratio is such that quantitative relationship helps to form a qualitative judgment.

OBJECTIVES OF THE STUDY

- To analyze Liquidity ratio.
- To analyze Profitability ratio in relation to sales

REVIEW OF LITERATURE

Selvaraj. V and Rajangam. P (2013) in their study on "Analysis of Profitability of Seshasayee Paper & Boards Limited (SPBL)" analysed profit ratios and return on capital employed and found that these ratios are statistically significant and concluded that the company has good opportunities for growth.

Abuzar(2004) empirically investigated the relationship between profitability and liquidity for sample firms in Saudi Arabia. Correlation and regression were used and the researcher took cash gap and current ration as a measure of liquidity and it was observed that size had a significant effect on profitability.

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Selvaraj. V and Rajangam. P (2012) investigated the rela-

tionship between liquidity and profitability and risk and profitability in Tamil Nadu Newsprint and papers limited (TNPL). Spearman's rank correlations was employed to test the significant relationships and found that there was no significant relationship between liquidity and profitability and also, there was an insignificant relationship between risk and profitability.

RESEARCH METHODOLOGY

DATA

The data used in this study is secondary data collected from websites of stock exchange and companies.

PERIOD OF STUDY

The period of study is 5 years i.e. 2008 – 2013.

CNX Pharma is one the index in National Stock Exchange meant for Pharmaceutical companies. 10 companies are listed in the index and the top 10 companies by market capitalization are taken for study. The companies are

1. Sun Pharma
2. Dr. Reddy Laboratories
3. Cipla

STATISTICAL TOOLS

Percentage, co-efficient of correlation and ANOVA are used in this study.

HYPOTHESES

Ho : There is no significant relationship between profitability and sales

H1 : There is a significant relationship between profitability and sales

Ho : There is no significant relationship between profitability and Dividend pay out ratio

H1 : There is a significant relationship between profitability and Dividend pay out ratio.

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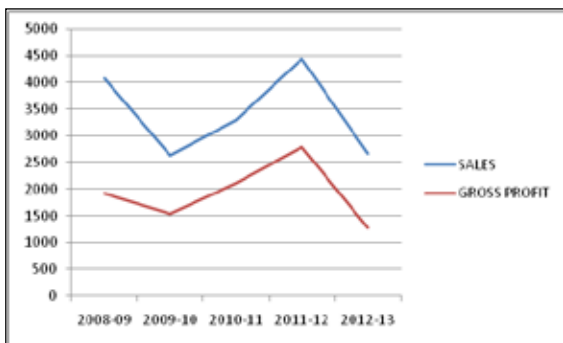
DATA ANALYSIS AND INTERPRETATION

The following table gives the gross profit ratio for Sun Pharmaceutical industries for the year 2008-09 to 2012-13.

Year	Net Sales	Gross Profit	Net Profit	GPR (%)	NPR %
2008 – 09	4074.65	1914.01	1265.29	46.97	31.05
2009 – 10	2641.98	1541.43	898.65	58.34	34.01
2010 – 11	3297.35	2115.04	1383.8	64.14	41.97
2011 – 12	4440.14	2797.03	1927.98	63	43.42
2012 – 13	2678.84	1272.7	516.55	47.51	19.28

The correlation for Net sales and Gross Profit and Net Profit are given below.

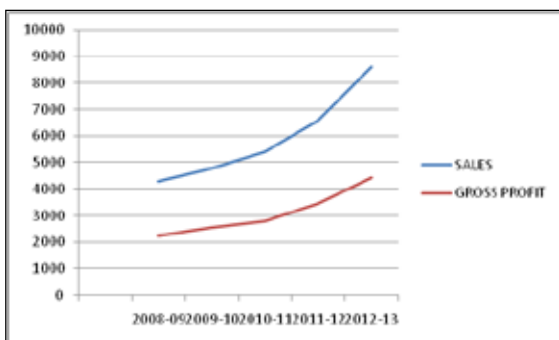
Content	Gross Profit	Net Profit
Correlation	0.86	0.87



-3- The following table gives the gross profit ratio for Dr. Reddy's Laboratories for the year 2008-09 to 2012-13.

Year	Net Sales	Gross Profit	Net Profit	GPR (%)	NPR %
2008 – 09	4275.8	2239.3	560.9	52.37	13.12
2009 – 10	4766.9	2547	846.1	53.43	17.75
2010 – 11	5384.5	2787.7	893.4	51.77	16.59
2011 – 12	6599.2	3467.6	912.4	52.55	13.83
2012 – 13	8612.7	4420.1	1265.5	51.32	14.69

Content	Gross Profit	Net Profit
Correlation	0.99	0.92

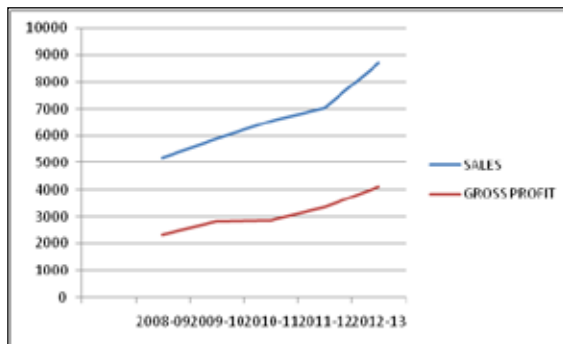


The following table gives the gross profit ratio and Net profit ratio for Cipla for the year 2008-09 to 2012-13.

Year	Net Sales	Gross Profit	Net Profit	GPR (%)	NPR %
2008 – 09	5208.33	2332.18	776.81	44.78	14.91
2009 – 10	5915.49	2816.93	1081.49	47.62	18.28
2010 – 11	6554.89	2840.37	960.39	43.33	14.65
2011 – 12	7062.76	3325.84	1123.96	47.09	15.91
2012 – 13	8722.03	4101.7	1507.11	47.03	17.28

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Content	Gross Profit	Net Profit
Correlation	0.98	0.94



ANOVA HYPOTHESIS

Ho : There is no significant relationship between Gross profit ratio among companies

H1 : There is a significant relationship between Gross profit ratio among companies

Gross Profit ratio

Company	Sun Pharma	Dr.Reddy	Cipla
2008 – 09	46.97	52.37	44.78
2009 – 10	58.34	53.43	47.62
2010 – 11	64.14	51.77	43.33
2011 – 12	63	52.55	47.09
2012 – 13	47.51	51.32	47.03

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ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	256.7954	2	128.3977	5.305197	0.022348	3.885294
Within Groups	290.427	12	24.20225			
Total	547.2223	14				

The null hypothesis is rejected and hence it can be concluded that there is variance among companies in gross profit ratio.

Ho : There is no significant relationship between Net profit ratio among companies

H1 : There is a significant relationship between Net profit

ratio among companies

Company	Sun Pharma	Dr.Reddy	Cipla
2008 – 09	31.05	13.12	14.91
2009 – 10	34.01	17.75	18.28
2010 – 11	41.97	16.59	14.65
2011 – 12	43.42	13.83	15.91
2012 – 13	19.28	14.69	17.28

Anova: Single Factor

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1112.15	2	556.0752	16.59	0.000351	3.89
Within Groups	402.165	12	33.51375			
Total	1514.315	14				

The null hypothesis is rejected and hence it can be concluded that there is variance among companies in gross profit ratio.

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Findings and Conclusion

There is a perfect correlation between gross profit and sales for all companies.

There is a perfect correlation between net profit and sales for all companies.

There is a considerable variance in profit among companies.

It is found that Sun Pharma has the highest variance and highest profit ratio, while Dr.Reddy's and Cipla has less variance.

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