

Impact of financial ratios on profitability- an analysis of select pharmaceutical companies in India

Syed Tabassum Sultana¹

Abstract: *Profitability ratios manifest an enterprise's ability to spawn earnings relative to sales, assets and equity. These ratios gauge the ability of an enterprise to yield earnings, profits and cash flows relative to any indicator, often the capital invested. The current paper studies the impact of financial ratios such as Liquidity ratios, Leverage ratios & Managerial Efficiency ratios on Profitability ratios. For the analysis, data of past 5 financial years from 2012 to 2016 was considered and the following six companies Auraobindo Pharma Ltd, Cadila Health Care, Cipla Ltd, Divis Laboratories Ltd, Dr Reddys Laboratories and Glenmark Pharmaceutical Ltd were chosen from Nifty 50 companies, these companies represent pharmaceutical sector which contribute 7.5% to the overall weight-age of the index. The results conclude that Current Ratio, Total Assets Turnover Ratio were positively correlated and also influencing Net Profit Margin, Return on Capital Employed & Return on Net Worth.*

Keywords: Financial Ratios, Profitability ratios, Pharmaceutical Companies, India

Introduction

Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value as per the Equity Master report. Consolidation has become an important characteristic of the Indian pharmaceutical market as the industry is highly fragmented in the recent past. In the global pharmaceuticals sectors India holds a significant position because presently Indian pharmaceutical firms supplies the 80 % of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome). India pharma industry is expected to outperform in comparison with global pharma industry, which is expected to grow 15 percent cent per annum between 2015 and 2020 whereas the global pharma industry is just 5 percent during the same period. Indian Pharma market is expected to grow to US\$ 55 billion by 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size, as stated by Mr Arun Singh, Indian Ambassador to the US. Branded generics dominate the pharmaceuticals market, constituting nearly 80 per cent of the market share (in terms of revenues). Over the past 70 years or so the Indian pharmaceutical sector witnessed rapid growth and transformation. From a mere volume of just RS. 10 cores in 1947, the industry registered a sales turnover of about us \$ 5.5 billion in 2004 with an annual growth rate of about 17%. The flexible provisions of the patent act of 1970 and other supportive policies of the government of India played an instrumental role in the growth and development of this industry. Given the importance of public policies in influencing the present structure of the

¹ Principal, Matrusri Institute of PG Studies, 16-1-486, Saidabad, Hyderabad, India.

Corresponding author: Syed Tabassum Sultana can be contacted at: s.tabassumsultana@gmail.com.

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industry this chapter, reviews in brief the important policy changes that have taken place in this sector and also examines the current changes in the structure of the industry and the changing behavior of firms in responding to policy changes.

Financial ratio analysis is a vital as the profitability of an enterprise is directly affected by such decision. There are various ratios to determine the financial position of the firm. Identifying those ratios which influence the profitability is one of the key elements of the firm's financial strategy. Profitability is the state of yielding a financial gain. It is the primary goal of all enterprises. Without profitability the business will not continue in the long run. Increasing profitability is one of the most important tasks of the entrepreneur. They constantly look for ways to change the business strategy to improve profitability. So measuring yesteryear profitability and projecting future profitability is very important. A variety of Profitability Ratios can be used to assess the financial health of a business. These ratios, created from the income statement, can be compared with industry benchmarks. Profitability ratios manifest an enterprise's ability to spawn earnings relative to sales, assets and equity. These ratios gauge the ability of an enterprise to yield earnings, profits and cash flows relative to some indicator, often the capital invested. Profitability is outcome of a numerous policies and decisions. In sum, the profitability ratios expose the blended outcome of liquidity, asset management and debt on the efficiency of the enterprise.

Review of Literature

Past literature related to financial ratios impact on profitability of pharmaceutical industry of India and other countries such as Iran, Nigeria is presented as follows:

Kaushik Chakraborty (2014) paper examines the relationship between financial leverage and profitability of the Indian pharmaceutical industry during the period of March 2002 to December 2011. The researcher compared the relationship between financial leverage and profitability of multinational companies with that of the domestic companies in the Indian pharmaceutical industry. The research found strong evidence of the negative contribution of financial leverage towards improving profitability for multinational and domestic firms. Hence, these results provide strong evidence of positive contribution of financial leverage towards improving profitability in a substantial portion of the sample companies during the study period.

Innocent *et al.* (2013) studied the relationship between the financial ratio analysis and profitability of the Nigerian Pharmaceutical industry over the eleven years period starting from 2001 to 2011. The study concluded that the financial ratio analyses have tremendous potentials to help organizations in enhancing their revenue generation ability as well as minimization of costs. The study considered five variables for the analysis such as: Inventory Turnover Ratio (ITR); Debtors' Turnover Ratio (DTR); Creditors' Velocity (CRSV); Total Assets Turnover Ratio (TATR) and Gross Profit Margin (GPM). Profitability as a dependent variable is expressed by Gross Profit Margin (GPM) while financial ratio analysis represents as ITR, DTR, CRSV and TATR for independent variables. The study reported that there is a negative relationship between all independent variables with profitability in the Nigerian pharmaceutical industry.

Mohammadzadeh *et al.* (2013) examined the relationship between the capital structure and the profitability of pharmaceutical companies in Iran. The study includes top 30 Iranian pharmaceutical companies and the financial data were gathered for the period of 2001 to 2010. Net margin profit and debts to asset ratio were expressed as indicators of profitability and capital structure respectively, the sales growth was selected as a control variable. The research showed that there was significant negative relationship between the profitability and the capital structure.

Dave (2012) examined the link between financial management and profitability of the Indian Pharma sector for a period of 10 years. The study covered six variables viz. Long term Debt to Equity Ratio (LTDER), Inventory Ratio (IR), Debtors Ratio (DR), Creditors Velocity (CRSV), Total Assets to Sales Ratio (TASR) and Profit after Tax to Sales Ratio (PATSR). These variables are calculated for 64 public limited pharmaceutical companies. The results proved that TASR and CRVS are the central variables for enhancing the profitability of the enterprise.

Okwo *et al.* (2012) studied the link between firm financial management techniques and profitability in selected Pharmaceutical firms in Nigeria. They covered six variables including Long-Term-Debt to Equity Ratio (LTDER), Inventory Turnover Ratio (ITR), Debtors' Turnover Ratio (DTR), Creditors' Velocity (CRSV), Total Assets Turnover Ratio (TATR) and Net Profit Margin (NPM). Profitability as a dependent variable is represented by Net Profit Margin (NPM) while LTDER, ITR, DTR, CRSV and TATR were the independent variables. The paper discovered a positive relationship between LTDER, DTR, TATR and profitability, while ITR and CRSV have negative relationships with profitability.

Objectives of the Study

- To analyse the association between Liquidity Ratios, Leverage Ratio, Management Efficiency Ratio and Profitability ratio of the selected pharmaceutical companies in India.
- To study the impact of liquidity ratios on profitability of selected pharmaceutical companies in India.
- To study the impact of leverage ratios on profitability of selected pharmaceutical companies in India.
- To study the impact of management efficiency ratios on profitability of selected pharmaceutical companies in India.

Scope of the Study

The scope of the study is confined to the following 6 companies:

- 1) Auraobindo Pharma Ltd
- 2) Cadila Health Care
- 3) Cipla Ltd
- 4) Divis Laboratories Ltd
- 5) Dr Reddys Laboratories
- 6) Glenmark Pharmaceutical Ltd

The above mentioned companies were chosen from Nifty 50 companies, these companies represent pharmaceutical sector which contribute 7.5% to the overall weight-age of the index.

Research Methodology

Data Collection

The financial data required for the analysis was drawn from www.moneycontrol.com.

Period of the Study: the period of the study covers 5 financial years from 2012 to 2016.

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Variables

Independent Variables:

Liquidity Ratios: Current Ratio (CR), Quick Ratio (QR).

Leverage Ratio: Debtors Equity Ratio (DER).

Managerial Efficiency Ratios: Inventory Turnover Ratio (ITR), Debtors Turnover Ratio (DTR), Total Assets Turnover Ratio (TATR).

Dependent Variables

Profitability Ratios: Net Profit Margin (NPM), Return on Capital Employed (ROCE), Return on Net Worth (RONW).

Current Ratio

Current ratio expresses relationship between current assets and current liabilities and can be calculated by dividing current assets by current liabilities. $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$.

Quick Ratio

Quick ratio is more refined measure of the firms liquidity. It establishes relationship between quick or liquid assets and current liabilities. $\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$.

Debt Equity Ratio

The debt equity ratio is the measure of relative claims of creditors and owners against the firm's assets. $\text{Debt-Equity ratio} = \frac{\text{Total debts}}{\text{Shareholder's equity}}$

Inventory Turnover Ratio

This ratio indicates the number of times the inventory has been converted into sales during the period. Thus it evaluates the efficiency of the firm in managing its inventory. $\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$.

Debtor Turnover Ratio

This indicates the number of times average debtors have been converted into cash during a year. $\text{Debtor Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Debtors}}$

Total Asset Turnover Ratio

This ratio shows the firm's ability to generate sales from all financial resources committed to total assets. $\text{Total Asset Turnover Ratio} = \frac{\text{Total Sales}}{\text{Total Asset}}$

Net Profit Margin

It measures the relationship between net profit and sales of a firm. It indicates management's efficiency in manufacturing, administrating, and selling the products.

$\text{Net Profit Margin} = \left(\frac{\text{Earnings after tax}}{\text{Net Sales}} \right) * 100$

Return on Capital Employed

It establishes relationship between net profits and capital employed. $\text{ROCE} = \frac{\text{Net profit after taxes (or after taxes plus interest)}}{\text{Total capital employed}}$

Return on Net Worth

This ratio gives you an idea of the returns generated by investing in the company. While ROCE is an effective measure to get a general overview of the profitability of the company's business operations, RONW lets you gauge the returns you can earn on your investment. When used along with ROCE, you get an overview of the company's competence, financial standing and its capacity to generate returns on shareholders' finances and capital employed.

$RONW = \text{Net Profit} / \text{Net Worth}$.

Statistical Tools & Techniques

In order to analyze the collected data the statistical tools such as correlation and Multi regression OLS model is used.

Model Building:

Multiple Linear Regression model consisting of five independent variables has been used to test the effect of independent variables on dependent variable as shown below:

$$y = b_0 + b_1 x_1 + b_2 x_2 + \dots + b_k x_k$$

Where,

y - Dependent Variable and x_1, x_2, \dots, x_k - Independent Variables and $b_0, b_1, b_2, \dots, b_k$ - Regression Coefficients

Model 1: $NPM = b_0 + b_1 (CR) + b_2 (QR) + b_3 (DER) + b_4 (ITR) + b_5 (DTR) + b_6 (TATR)$

Model 2: $ROCE = b_0 + b_1 (CR) + b_2 (QR) + b_3 (DER) + b_4 (ITR) + b_5 (DTR) + b_6 (TATR)$

Model 3: $RONW = b_0 + b_1 (CR) + b_2 (QR) + b_3 (DER) + b_4 (ITR) + b_5 (DTR) + b_6 (TATR)$

Data Analysis

To study the association between the independent and dependent variables Pearson correlation coefficient is applied and the results of the test are presented in the Table 1. Correlation coefficient is a statistical measure that determines the degree to which two variable's movements are associated. Correlation coefficient value ranges from -1 to 1. Negative value of correlation indicates: if one variable increases in its values, the other variable decreases in its value and positive value indicates: if one variable increases in its values the other variable also increases in its value.

Table 1: Correlation between Independent Variables and Dependent Variables

		CR	QR	DER	ITR	DTR	TATR
NPM	Pearson Correlation	.536**	.379*	-.250	.214	-.130	.493**
	Sig. (2-tailed)	.000	.017	.135	.191	.429	.001
ROCE	Pearson Correlation	.591**	.275	-.231	.102	-.250	.777**
	Sig. (2-tailed)	.000	.090	.163	.530	.119	.000
RONW	Pearson Correlation	.418**	.375*	.007	.208	-.212	.762**
	Sig. (2-tailed)	.008	.019	.968	.198	.190	.000

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

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NPM

Correlation between NPM and CR

The r value is 0.536, indicates that there is a moderate degree of positive correlation between NPM and CR. The correlation was found to be significant at 1% level of significance.

Correlation between NPM and QR

The r value is 0.379, indicates that there is a low degree of positive correlation between NPM and QR. The correlation was found to be significant at 5% level of significance

Correlation between NPM and DER

The r value is -0.250, indicates that there is a low degree of negative correlation between NPM and DER .The correlation was not significant at 1% level of significance

Correlation between NPM and ITR

The r value is 0.214, indicates that there is a very low degree of positive correlation between NPM and ITR. The correlation was not significant at 1% level of significance

Correlation between NPM and DTR

The r value is -0.130, indicates that there is a very low degree of negative correlation between NPM and DTR. The correlation was not significant at 1% level of significance

Correlation between NPM and TATR

The r value is 0.493, indicates that there is a low degree of positive correlation between NPM and TATR .The correlation was found to be significant at 1% level of significance

ROCE

Correlation between ROCE and CR

The r value is 0.591, indicates that there is a moderate degree of positive correlation between ROCE and CR .The correlation was found to be significant at 1% level of significance

Correlation between ROCE and QR

The r value is 0.275, indicates that there is a low degree of positive correlation between ROCE and QR. The correlation was not significant at 1% level of significance

Correlation between ROCE and DER

The r value is- 0.231, indicates that there is a very low degree of negative correlation between ROCE and ITR. The correlation was not significant at 1% level of significance

Correlation between ROCE and ITR

The r value is 0.102, indicates that there is a very low degree of positive correlation between ROCE and ITR. The correlation was not significant at 1% level of significance

Correlation between ROCE and DTR

The r value is -0.250, indicates that there is a low degree of negative correlation between ROCE and DTR. The correlation was not significant at 1% level of significance

Correlation between ROCE and TATR

The r value is 0.777, indicates that there is a fairly high degree of positive correlation between ROCE and TATR. The correlation was found to be significant at 1% level of significance

RONW

Correlation between RONW and CR

The r value is 0.418, indicates that there is a low degree of positive correlation between RONW and CR. The correlation was found to be significant at 1% level of significance

Correlation between RONW and QR

The r value is 0.375, indicates that there is a low degree of positive correlation between RONW and QR. The correlation was found to be significant at 5% level of significance

Correlation between RONW and DER

The r value is 0.007, indicates that there is a very low degree of positive correlation between RONW and DER. The correlation was not significant at 1% level of significance

Correlation between RONW and ITR

The r value is 0.208, indicates that there is a very low degree of positive correlation between RONW and ITR. The correlation was not significant at 1% level of significance

Correlation between RONW and DTR

The r value is -0.212, indicates that there is a very low degree of negative correlation between RONW and DTR. The correlation was not significant at 1% level of significance

Correlation between RONW and TATR

The r value is 0.762, indicates that there is a fairly high degree of positive correlation between RONW and TATR. The correlation was found to be significant at 1% level of significance

Developing the Model

After analyzing the association between Liquidity Ratio, Leverage Ratio, Management Efficiency Ratio and Profitability ratios the next step is developing the model. The model is developed by using multi regression. The multiple regression analysis is a statistical technique used to evaluate the effects of two or more independent variables on a single dependent variable. In the current paper attempt is made to study the impact of Liquidity Ratios (CR, QR), Leverage Ratio (DER) and Managerial Efficiency Ratios (ITR, DTR, TATR) on Profitability Ratios (NPM, ROCE, RONW).

Model 1

$$NPM = b_0 + b_1 (CR) + b_2 (QR) + b_3(DER) + b_4 (ITR) + b_5 (DTR) + b_6(TATR)$$

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The table 2 is the model summary reports the strength of the relationship between the model and the dependent variable. R, the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of the dependent variable. Its large value indicates a strong relationship. R Square, the coefficient of determination, is the squared value of the multiple correlation coefficients. The value of R^2 is 0.510; it shows that the model explains 51% of the variation. In other words the dependent variables CR, QR, DER, ITR, DTR, TATR is able to explain around 51% the variation of the dependent variable (NPM).

Table 2: Model Summary of Net Profit Margin (NPM)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-watson
1	.714 ^a	.510	.412	17.07559	2.169
Independent Variables : (Constant), TATR, DTR, DER, ITR, CR, QR					
Dependent Variable: NPM					

The ANOVA table 3, tests the acceptability of the model from a statistical perspective. The Regression row displays information about the variation accounted for by the model. The Residual row displays information about the variation that has not been accounted by the model. The regression much is less than residual sums of squares, which indicates that around 51% of the variation in NPM is explained by the model. However, F statistic is found significant, since the p value (0.001) less than 0.05.

Table 3: ANOVA of Net Profit Margin (NPM)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9113.476	6	1518.913	5.209	.001*
	Residual	8747.278	30	291.576		
	Total	17860.754	36			
*Significant at 5 Percent of level of Significance.						

The p-value related to CR, TATR shown in table 4, is less than 0.05, hence it is concluded that at 5 percent level of significance the Current Ratio and Total Assets Turnover Ratio are influencing Net profit margin of the selected pharmaceuticals companies. However the other ratios such as Quick Ratio, Debt equity ratio, Inventory turnover ratio and Debtors Turnover ratio are not influencing the net profit margin ratio.

Table 4: Coefficients of Net Profit Margin (NPM) and other Dependent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-63.678	21.674		-2.938	.006
	CR	22.713	10.433	.643	2.177	.037*
	QR	-2.972	10.439	-.078	-.285	.778
	DER	16.156	27.465	.154	.588	.561
	ITR	2.166	1.860	.219	1.164	.254
	DTR	.706	2.610	.042	.270	.789
	TATR	32.616	13.164	.352	2.478	.019*
*Significant at 5 Percent of level of Significance.						
**Significant at 10 Percent of level of Significance.						

Model 2

$$ROCE = b_0 + b_1 (CR) + b_2 (QR) + b_3(DER) + b_4 (ITR) + b_5 (DTR) + b_6(TATR)$$

The table 5 is the model summary reports the strength of the relationship between the model and the dependent variable. R, the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of the dependent variable. Its large value indicates a strong relationship. R Square, the coefficient of determination, is the squared value of the multiple correlation coefficients. The value of R^2 is 0.854; it shows that the model explains 85.4% of the variation. In other words the dependent variables CR, QR, DER, ITR, DTR, TATR is able to explain around 85.4% the variation of the dependent variable (ROCE).

Table 5: Model Summary of Return on Capital Employed (ROCE)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-watson
1	.924 ^a	.854	.825	4.28170	1.320
Independent Variables : (Constant), TATR, DTR, DER, ITR, CR, QR Dependent Variable: ROCE					

The ANOVA table 6, tests the acceptability of the model from a statistical perspective. The Regression row displays information about the variation accounted for by the model. The Residual row displays information about the variation that has not been accounted by the model. The regression much is less than residual sums of squares, which indicates that around 85.4% of the variation in ROCE is explained by the model. However, F statistic is found significant, since the p value (0.000) less than 0.05.

Table 6: ANOVA of Return on Capital Employed (ROCE)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3219.604	6	536.601	29.270	.000 ^a
	Residual	549.990	30	18.333		
	Total	3769.594	36			
*Significant at 5 Percent of level of Significance.						

The p-value related to CR ,QR, TATR shown in table 7, is less than 0.05, hence it is concluded that at 5 percent level of significance the Current Ratio, Quick Ratio, Total Assets Turnover Ratio are influencing Return on Capital Employed of the selected pharmaceuticals companies.

The p-value related to ITR shown in table 7, is less than 0.10, hence it is concluded that at 10 percent level of significance the Inventory Turnover Ratio is influencing Return on Capital Employed of the selected pharmaceuticals companies. However the other ratios such as Debt Equity ratio and Debtors turnover ratio are not influencing the Return on Capital Employed ratio.

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Table 7: Coefficients of Return on Capital Employed (ROCE) and other Dependent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-15.634	5.435		-2.877	.007*
	CR	12.138	2.616	.747	4.640	.000*
	QR	-6.209	2.618	-.352	-2.372	.024*
	DER	9.187	6.887	.191	1.334	.192
	ITR	.932	.466	.205	1.998	.055**
	DTR	-.739	.654	-.097	-1.130	.267
	TATR	27.786	3.301	.652	8.418	.000*
*Significant at 5 Percent of level of Significance.						
**Significant at 10 Percent of level of Significance.						

Model 3: $RONW = b_0 + b_1 (CR) + b_2 (QR) + b_3(DER) + b_4 (ITR) + b_5 (DTR) + b_6 (TATR)$

The table 8 is the model summary reports the strength of the relationship between the model and the dependent variable. R, the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of the dependent variable. Its large value indicates a strong relationship. R Square, the coefficient of determination, is the squared value of the multiple correlation coefficients. The value of R^2 is 0.716; it shows that the model explains 71.6% of the variation. In other words the dependent variables CR, QR, DER, ITR, DTR, TATR is able to explain around 72% the variation of the dependent variable (RONW).

Table 8: Model Summary of Return on Net worth (RONW)

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-watson
1	.846 ^a	.716	.659		7.50429	2.004
Independent Variables : (Constant), TATR, DTR, DER, ITR, CR, QR						
Dependent Variable: RONW						

The ANOVA table 9, tests the acceptability of the model from a statistical perspective. The Regression row displays information about the variation accounted for by the model. The Residual row displays information about the variation that has not been accounted by the model. The regression much is less than residual sums of squares, which indicates that around 71% of the variation in RONW is explained by the model. However, F statistic is found significant, since the p value (0.000) less than 0.05.

Table 9: ANOVA of Return on Net Worth (RONW)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4257.211	6	709.535	12.600	.000*
	Residual	1689.429	30	56.314		
	Total	5946.640	36			
*Significant at 5 Percent of level of Significance.						

The p-value related to CR, TATR shown in table 10, is less than 0.05, hence it is concluded that at 5 percent level of significance the Current ratio and Total Assets Turnover Ratio are influencing Return on Net worth of the selected pharmaceuticals companies.

The p-value related to DER, ITR shown in table 10, is less than 0.10, hence it is concluded that at 10 percent level of significance the Debt Equity Ratio and Inventory Turnover Ratio are influencing Return on Net worth of the selected pharmaceuticals companies. However the other ratios such as Quick ratio and Debtors turnover ratio are not influencing the Return on Net worth ratio.

Table 10: Coefficients of Return on Net Worth (RONW) and other Dependent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-35.867	9.525		-3.766	.001*
	CR	13.159	4.585	.645	2.870	.007*
	QR	-4.860	4.588	-.220	-1.059	.298
	DER	21.080	12.070	.349	1.746	.091**
	ITR	1.482	.818	.260	1.813	.080**
	DTR	-.077	1.147	-.008	-.067	.947
	TATR	33.250	5.785	.621	5.748	.000*
*Significant at 5 Percent of level of Significance.						
**Significant at 10 Percent of level of Significance.						

Scope for further Research

The current study was carried out using 5 years data and 6 pharma companies which were chosen from Nifty 50 companies. The study can be extended by considering all listed companies and also long term perspective can be included by increasing the number of years to 10 to 15 years.

Conclusion

The Indian pharmaceutical market size is expected to grow to US\$ 100 billion by 2025, driven by increasing consumer spending, rapid urbanisation, and raising healthcare insurance among others. The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

Financial ratios and its evaluation reveal the financial health of the companies. Identifying the financial ratios influencing the profitability indicators represents the financial performance related to the dynamic environment, where the enterprises operate. The current study identifies the various ratios of Liquidity ratios, Leverage ratio & Managerial Efficiency ratios influencing the profitability ratios. The results of the study conclude that Current Ratio, Total Assets Turnover Ratio were positively correlated and also influencing all the selected Profitability Ratios. Total Assets Turnover Ratio is influencing all the selected profitability ratios considered for the study it can concluded that companies are utilizing its assets efficiently in generating its income. Hence the companies have to continue to focus on Current Ratio and

Impact of financial ratios on profitability- an analysis of select pharmaceutical companies in Total Assets Turnover Ratio so as improve the profitability so as to increase the competitiveness and strengthen the position in the market.

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