

PROFITABILITY FUNCTION AND ITS SENSITIVITY FOR PHARMACEUTICAL SECTOR

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Abstract

Profit making is the most important objective of any Industry. Increasing income and reducing expenses seems to be the theoretical solution. Improved profits are quite often associated with increase in both income and expenditure. This work is an attempt to evaluate key performance measurement parameter viz. Return on equity as the linear function of different financial variables. The base financial variables were identified from the last layer of tree structure exhibited by major accounting heads. The identified variables are used as independent parameters. The data of 129 Indian Pharmaceutical Companies is extracted from their respective financial statements. The companies are grouped into three groups on the basis of their net fixed assets and an overall group. The correlation coefficients and RMS error for all the four models are estimated. The models exhibited the correlation coefficient for single cluster as 0.423283, for cluster one as 0.813285, for cluster two as 0.701546 and for cluster three as 0.818612. The variables R&D expenses, other manufacturing expenses are positively influencing the dependent variable while energy cost, interest and depreciation are negatively influencing the dependent variables in general.

Keywords: Profitability, regression, financial variables