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Financial Performance of Pharmaceutical Industry in Bangladesh with Special Reference to Square Pharmaceuticals Ltd.

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Abstract: *Financial performance analysis is a vital tool to find out the efficiency of management in different aspects of a company. Financial performance has been evaluated in the study through analyzing the financial statement i.e. through ratio analysis. Solvency, profitability, activity or turnover and return on assets and equity have been analyzed to measure the financial performance and efficiency of management. To measure the financial strengths and weaknesses of the company is the main objective of the study. This study is empirical in nature and mainly based on secondary data which are collected from Annual reports of 'Square Pharmaceuticals Ltd.'. Data of 08-year ranging from 2006-2013 have been used for conducting the research work. Some ratios, percentage and statistical tools have been used for analyzing and interpreting the data. This study is following the pharmaceutical industry with special reference to 'Square Pharmaceuticals Ltd.'. Proper financial performance of manufacturing sub-sector like pharmaceutical sub-sector may be helpful for preparing fiscal and economic policy of the country. This study is the part of this effort. From the finding of the study, it is said that liquidity position and inventory turnover ratio is not so much satisfactory while the accounts receivable turnover ratio, earning power and return on equity is satisfactory. From overall findings of the study, it is inferred that the management of Square Pharmaceuticals Ltd. has been able to keep stability in running the business as well as bring upward trend in earning profit. Ultimately, the study recommends maintaining an effective coordination among different departments especially in the finance, sales and PPIC department for further improvement of the company.*
Key words: *Financial performance, liquidity, profitability, assets turnover, inventory turnover, Accounts receivable turnover, earning power, return on equity.*

I. Introduction

The prosperity and development of a business enterprise mainly depends upon the financial performance of that enterprise. Well financial performance is an indicative of good financial health of that business. Managerial efficiency, operational efficiency, profit of the business, credit worthiness, return on investment, return on assets etc. depend upon the financial performance of a business. So, to conduct the present research work, at first the researcher should have a clear conception about the financial performance of an enterprise. The researcher tries to give a conception on financial performance which is as follows:

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Investipedia:Online). Financial performance is evaluated through financial performance analysis. Now, the question, what is analysis? The dictionary meaning of analysis is to resolve or separate a thing into its elements or components parts for tracing their relation to the things as whole and to each other (ebstudies:online). So, financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis (ebstudies:online). There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operation can be used as well as total unit sales. Furthermore, the analysts or investor may wish look deeper into financial statements and seek out margin growth rates and any declining debt.(Investipedia:online). The analysis of financial statement is the most important tool to measure the financial performance of a company (ebstudies:online). So, financial performance should be measured through the analysis of financial statement. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance (ebstudies:online) This analysis can be undertaken by management of the firm or by the parties outside the namely, owners, creditors, investors and other stakeholders. (ebstudies:online)

Measuring the result of a firm's policies and operations in monetary terms, these results are reflected in the firms return on investment, return on assets, value added etc. (Business Dictionary: online). The level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms (ebstudies:online). Apart from these, to uphold or increase the profitability of a business enterprise, well and effective financial performance of the business is mostly desired. As Bangladesh is an agrarian country and this sector is overmanned one. For reducing unemployment problem with a view to achieving economic development of the country, the excess manpower of this sector should be shifted to another sector. Industrial sector has a bulk opportunity to absorb the highest number of unemployed people. Over and above, to increase the contribution to the national economy as well as to earn the foreign exchequer, industrial sector in general and pharmaceuticals industry in particular can play a vital role through increasing its profit volume. The management of the Pharmaceuticals industry in particular and different industries of industrial sector in general may be benefited from the findings of the study. Thus the fiscal as well as economic policy makers of the country can utilize the recommendations of the study in preparing policy. As far as the researcher knows a few study on financial performance of Square Pharmaceuticals Ltd.. The researcher has been imbued to conduct research work on the present topic titled "Financial Performance of Pharmaceutical Industry in Bangladesh with Special Reference to Square Pharmaceuticals Ltd.."as a humble attempt to fill in this gap.

1.1. Vision, Mission, Objectives, Corporate focus and historical background of Square Pharmaceuticals Ltd.

Since, this study is following the Square Pharmaceuticals Ltd.. So, the vision, mission, objectives, corporate focus as well as historical background of the company is required to present to understand the importance and justification of the study. In this regard, those are given below:

1.1.1. Vision

Square Pharmaceuticals Ltd. views business as a means to the material and social well being of the investors, employees and the society at large, leading to accretion of wealth through financial and moral gains as apart of the process of the human civilization (Annual Report, 2012-2013:4).

1.1.2. Mission

The mission of Square Pharmaceuticals Ltd. is to produce and provide quality & innovative healthcare relief for the people, maintain stringently ethical standard in the business operation also ensuring benefit to the shareholders, stakeholdersand the society at large (Annual Report, 2012-2013:4).

1.1.3.Objectives

Objectives of Square Pharmaceuticals Ltd. is to conduct transparent business operation based on market mechanism within the legal & social frame work with aims to attain the mission reflected by the company's vision (Annual Report, 2012-2013:4).

1.1.4. Corporate Focus

The vision, the mission and the objectives of the company are to emphasise on the quality of product, process and services leading to growth of the company imbibed with good governance practice (Annual Report, 2012-2013:4).

1.1.5. Historical Background in brief

Square Pharmaceuticals Ltd. started its business in 1957 with private initiative. It was incorporated on November 10, 1964 under the companies Act. 1913 and it was converted into a Public Limited Company in 1991 and offered its share to the public with the approval of the Bangladesh Securities and Exchange Commission in the month of December 1994. The shares of the company are listed in Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd.. Square Pharmaceuticals Ltd. is under manufacturing sub-sector and one of the leading Pharmaceutical companies of Bangladesh. It occupies a vast market in pharmaceutical arena by producing and supplying different types of drugs in national and international markets. This company started its exporting activities since 1987. Now-a-days it is strengthening its exporting activities on the way to becoming a performance global competitor by supplying quality pharmaceuticals at competitive price. The contribution of Square Pharmaceuticals Ltd. to the national exchequer is remarkable. It pays a large amount of taxes, vat, customs and excise duty every year. Over and above, it employs a vast number of unemployed people of the country. The main factory building is situated at pabna and another factory building is at Kaliachoir, Gazipur. The head office of the company is at Mohakhali, Dhaka.

1.2. Objectives of the Study

The main objective of the present study is to examine the financial strengths and weaknesses of Square Pharmaceuticals Ltd.. Apart from these, the study has some specific objectives which are as follows:

i) To study the different sources of funds of Square Pharmaceuticals Ltd..
ii) To analyze the financial changes over the period of study.
iii) To evaluate the financial performance of the company through solvency, profitability, activity or turnover ratios.
iv) To identify the managerial performance and corporate efficiency of Square Pharmaceuticals Ltd. in managing the funds, assets, investments.
v) To suggest some effective measures to overcome the existing weakness of Square Pharmaceuticals Ltd. in particular and Pharmaceutical industry of Bangladesh in general.

1.3. Methodology of the Study

The study is mainly based on secondary data and a few primary data. The secondary data have been collected from the Annual Reports and primary data through interviewing some executives of Square Pharmaceuticals Ltd.. To understand and present the different terms, some books as well as articles have been reviewed by the researcher. For the analysis of data simple statistical tools like ratios and percentage have been used.

1.4. Scope of the study

The study covers almost the financial operations covered by the "Financial Performance of Pharmaceutical Industry in Bangladesh with Special Reference to Square Pharmaceuticals Ltd.". The study has been conducted with the data available in the audited financial records. Annual reports are the audited financial records of the company. The researcher tries to evaluate the financial performance of the company that includes sources of finance, solvency, profitability, activity or turnover and return on assets and equity. The study covers 08-year period data ranging from 2006 to 2013 of Square Pharmaceuticals Ltd..

1.5. Limitations of the study

The study has some serious limitations. Actually this study is based on secondary data that are available from annual reports of Square Pharmaceuticals Ltd.. All the necessary data are not available in the annual report. Such as credit sales are not available in the annual report and that's why the better ratios of turnover are not possible to determine. The alternative way had to be adopted in this case. Over and above, the executives of the company are reluctant to provide such type data also. They suggested relying on the annual reports only.

II. Analysis and interpretation

2.1. Current assets financed by long-term and short-term sources

Generally the current assets of a firm are supported by a combination of long-term and short-term sources of finance (Chandra, P. 1992: 332). The volume of long-term funds employed in financing current assets can be determined by finding the net current assets/net working capital (current assets less current liabilities). The size of net current assets indicates 'margin of safety' or cushion of protection' provided to short-term sources of funds. It also reduces the likelihood of insolvency possible bankruptcy (johnson, R. W. & Melicher, R. W. 1977: 139).

Table-1: Financing the Current Assets (C.A) in Square Pharmaceuticals Ltd. from Long-term and Short-term fund during 2006-2013 (Amount in lac Tk.)

Year	Total Current Assets	Total Current Liabilities	C.A financed by Long–term fund		C.A financed by Short–term fund	
			Amount	%	Amount	%
2006	40316.85	22607.55	17709.3	43.93	22607.55	56.07
2007	36825.1	25555.66	11269.44	30.60	25555,66	69.40
2008	44118.36	35008.45	9109.91	20.65	35008.45	79.35
2009	38435.13	26408.68	12026.44	31.29	26408.68	68.71
2010	45530	22167.44	23362.56	51.31	22167.44	48.69
2011	70222.14	46681.89	23540.25	33.52	46681.89	66.48
2012	67455.07	42529.34	24925.73	36.95	42529.35	63.05
2013	59966.97	37924.38	22042.59	36.76	37924.38	63.24

Source: Annual Reports of Square Pharmaceuticals Ltd. from 2006 to 2013.

The data relating to financing in current assets by short-term and long-term sources of fund by Square Pharmaceuticals Ltd. have been presented in Table-1.The proportion of long-term fund in current assets financing ranged between 51.31 and 20.65 as against the proportion short-term funds in between 79.35 to 48.69 percent during period of the study. Thus on an average 36% of current assets are financed by long term fund and about 64% of current assets are financed by short-term fund. Thus it is seen that the Square Pharmaceuticals Ltd. finances its current assets mostly from short-term sources although this trend has been reducing in the later years. Accordingly it can be said that the Square Pharmaceuticals Ltd. follows an aggressive policy in financing the current asset to some extent although there was a fluctuating trend in ratio of long-term funds to total current assets. From the above discussion it is concluded that the financial risk is high to some extent and at the same time the profitability of Square Pharmaceuticals Ltd. is supposed to be high.

2.2. Liquidity Analysis:

Liquidity of a firm is the ability to meet the current/short-term obligation when they become due for payment. In fact, liquidity is a prerequisite for the very survival of a firm. It reflects the shot-term financial strength/solvency of a firm (Khan & Jain:2008:6.3). In fact, analysis of liquidity needs the preparation of cash budgets and cash flow and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations provide a quick measure of liquidity**.** (ebstudies: online) Low liquidity of a firm means that it has no financial capacity to pay the short-term obligation i.e. the firm is in the lack of working capital which hampers the smooth running of business. On the other hand, high liquidity of a firm indicates the inefficiency of the management of the business. The management of the business cannot utilize its fund. It is remaining idle that earn nothing i.e. the fund unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity (ebstudies: online). The most popular two ratios are shown to measure the solvency of the company.

$$\text{Current Ratio}=\frac{TotalCurrentAssets}{TotalCurrentLiabilities}$$

$$\text{Liquid/Acid Test Ratio}=\frac{LiquidAssets}{CurrentLiabilities}$$

Liquid Assets=Current Assets-Inventory-Accounts Receivables-Prepayments.

Table-2: Measurement of Liquidity of Square Pharmaceuticals Ltd. from 2006 to 2013

(Figures in lac Tk.)

Year	Total Current Assets	Total Current Liabilities	Current Ratio	Inventory	Prepayments	Liquid Assets	Liquid/Acid test Ratio
2006	40316.85	22607.55	1.78	13423.6	1664.92	25228.33	1.12
2007	36825.1	25555.66	1.44	15441.9	2364.55	19018.65	.74
2008	44118.36	35008.45	1.26	20267.4	2888.06	20962.9	.6
2009	38435.13	26408.68	1.45	20987.6	2603.3	14844.23	.56
2010	45530	22167.44	2.05	22070.8	3582.5	19876.7	.9
2011	70222.14	46681.89	1.5	25416.9	5239.91	39565.33	.85
2012	67455.07	42529.34	1.59	26878.2	5771.56	34805.31	.82
2013	59966.97	37924.38	1.58	25036.8	6503.8	28426.37	.75

Source: Annual Reports of Square Pharmaceuticals Ltd. from 2006 to 2013.

It is evident from Table-1 that the higher portion of current assets is financed by short-term sources. It is also evident from the liquidity analysis of the company in Table-2 that current ratio as well as acid test ratio is not upto the standard norm due to financing the higher portion of current assets by short-term sources. It is evident from the Table -1 and Table-2, in 2007, 2008 and 2009 the current ratio as well as acid test ratio is very low during the study period and accordingly the percentage of financing the current assets from short-term source is also higher. On the other hand, the liquidity position of the company is moderately satisfactory in 2010 and accordingly percentage of financing the current assets from short-term source is also lower. The over all liquidity position of the company is not good at all. It indicates that the company has no sufficient fund or ability to pay the current obligation that is so much risky for the company. Because the low liquidity position is a threat to a company and it makes the company unsafe and unsound.

2.3. Profitability Analysis

Profitability of a firm means the profit earning capacity of that firm. It depends upon the financial and operational soundness of a firm. Since, the main and ultimate objective of a business is to earn profit, so the profit is the ultimate outcome as well as indicator of all types of efficiency of a business concern. It is essential for survival of a business concern. There are two types of profitability ratios: i) profit margin ratio and ii) rate of return ratio.

Profit margin ratio shows the relationship between profit and sales and rate of return ratio reflects the relationship between profit and investment (ebstudies: online). Three types of profit margin ratios are shown in the study for the convenience of analysis.

Gross Profit Margin= $\frac{Gross\Pr ofit}{Sales}\times 100$

Net Profit Margin= $\frac{EarningafterTax}{Sales}\times 100$

Operating Expense Ratio= $\frac{OperatingExpenses}{Sales}\times 100$

Table-3: Measurement of Profitability Ratio of Square Pharmaceuticals Ltd. during 2006- 2013

(Amount shown in the nearer round figure in lac Tk.)

Year	Net Sales	Gross Profit		Net Profit		Operating Expenses	
		Amount	Ratio	Amount	Ratio	Amount	Ratio
2006	60899	25645	42.1	11659	19.14	9843	16.16
2007	75008	32324	43.09	13032	17.37	14066	18.75
2008	82578	34018	41.19	13819	16.73	16925	20.5
2009	98208	41482	42.24	18901	19.25	17798	18.12
2010	114626	49013	42.76	20879	18.21	22117	19.29
2011	134714	57678	42.81	25321	18.8	30162	22.39
2012	160544	68872	42.9	28977	18.04	35660	22.21
2013	179595	77360	43.07	33414	18.6	38832	21.62

Source: Annual Reports of Square Pharmaceuticals Ltd. from 2006 to 2013.

From Table-3, it is evident that profitability of the company during the study period is completely satisfactory. Because the study shows the gross profit range 43.09-41.19 and net profit range 19.25-16.73. But it is also seen that during the whole period of study, the gross profit rate is much higher than the net profit rate. It is because of higher volume of operating and other non-financial expenses. It is also seen in this analysis that the net profit rate has been gradually decreased during the study period. The highest net profit has been earned in 2009 and then 2006 i.e. initial year of the study period. After 2009 the net profit has been decreased. From the view point of accounting operation, it is said that the lower the operating and other non financial expenses, the higher the net profit. So, there is an inverse relation between net profit and operating expenses and this analysis has also established this relation with a few exceptions. The lowest operating expenses have been recorded in the initial year, 2006 which is 16.16% and accordingly the second highest net profit, 19.14% is recorded in that year. On the other hand, the second lowest operating expenses are recorded in 2009 i.e. 18.12% and the highest net profit 19.25% is shown in that year. Thus it is found in this table that when the operating expenses are higher then net profit is lower and vise-versa.

2.4. Inventory Turnover

The inventory turnover ratio indicates the number of times inventory replaced during the year. Inventory turnover measures the relationship between the costs of goods sold and inventory level. It is a test of efficient inventory management. Generally high inventory turnover ratio is better than low ratio. High ratio implies good management of inventory. Yet, a very high ratio calls for a careful analysis. It may be the indicative of underinvestment in, or very low level of inventory. On the other hand, very low ratio signifies excessive inventory or overinvestment in inventory. Carrying excessive inventory involves cost in terms of interest on funds locked up, rental of space, possible deterioration and so on. Low ratio may be the result of inferior quality of goods, overvaluation of closing inventory, stock of unsalable/ obsolete goods or deliberate excessive purchases in anticipation of future increase in there prices and so on (Khan & Jain:2008:6.27-28).

It may be measured in two ways. But first one is better and produces accurate result. So, the inventory turnover may be calculated as under:

$$Inventoryturnover = \frac{Costofgoodssold}{Averageinventory}$$

Average Inventory= $\frac{OpeningInventory + Clo\sin gInventory}{2}$

2.5. Accounts Receivable Turnover

Accounts receivable turnover means how quickly receivables or debtors are converted into cash. In other words, debtor turnover ratio is test of liquidity of the debtors of a firm. This ratio indicates the speed with which debtors/accounts receivable are being collected. It implies the efficiency of trade credit management. The higher the turnover ratio and shorter the collection period, the better is the trade credit management and the better is the liquidity of debtors as short collection period and high turnover ratio imply prompt payment on the part of debtors. On the other hand, too low turnover ratio or long collection period may be the cause of reduction of sale. Sales may be confined to only such type of customers who make prompt payments. The credit and collection policy of the firm may be very restrictive. Sales may be severely curtailed ((Khan & Jain:2008:6.28-29).

$$Accountsreceivableturnover = \frac{TotalSales}{Accountsreceivables}$$

Table-4: Inventory Turnover and Accounts receivables Turnover

Year	Cost of goods sold	Closing Inventory	Average Inventory	Inventory Turnover	Net Sales	Accounts receivable	Accounts receivable Turnover
2006	35254	13424	-	-	60899	2887	21.09
2007	42684	15442	14433	2.957	75008	3228	23.237
2008	48561	20267	17854.5	2.719	82578	3602	22.926
2009	56726	20988	20627.5	2.75	98208	4776	20.562
2010	65613	22071	21529.5	3.047	114626	5082	22.555
2011	77037	25417	23744	3.24	134714	7724	17.44
2012	91673	26878	26147.5	3.506	160544	8083	19.862
2013	102235	25037	25957.5	3.938	179595	8010	22.421

Source: Annual Reports of Square Pharmaceuticals Ltd. from 2006 to 2013.

From the above table, the inventory turnover is moderately equal i.e. around 03 (three) times in the early years of the study period. It has been increased in the terminal year and prior of it. These are nearer 04 (four) times. Accounts receivable turnover ratio is considered moderately high in the sense that the highest turnover is 23 times in a year in this study and it is at least 03 (three) years out of 06 (six) years and in the other years it is nearer to this number i. e. 22 (twenty two) times in 2013, 21(twenty one) times in 2006 and 2009 and 20 (twenty) times in 2012. The lowest turnover is revealed 17 times in 2011. It is seen here that in most of the year in the study period the collection of accounts receivable in two times in a month. From the above discussion, it is inferred that the accounts receivables are being converted into cash within a very short period of time. It indicates the frequency of sales which may be told well for the company under the study.

2.6. Assets turnover ratio and Financial leverage ratio Analysis

The assets turnover ratio measures the efficiency of a firm in managing and utilizing its assets. The higher the turnover ratio, the more efficient is the management and utilization of assets while low turnover ratios are indicative the underutilization of available resources and presence of idle capacity. In operational term, it implies that the firm can expand its activity level (in terms of production and sales) without requiring additional capital and investments. In case of higher ratio, the firm would normally be required, other things being equal, to make additional capital investments to operate at higher level of activity (Khan & Jain:2008:6.31).

The financial leverage ratio is a measure of how much assets a company holds relative to its equity. A high financial leverage ratio means that the company is using debt and other liabilities to finance its assets and everything else being equal is more risky than a company with lower leverage.

In essence, the financial leverage ratio is a variation of the debt-equity ratio and would move in tandem with debt to equity. If a company can employ its assets at a higher return than its cost of debt, it would improve its return on equity capital. If not the company's debt outweighs the return from its assets, then the debt cost may outweigh the return on assets. Over the long-term, this would lead to bankruptcy. Investors should take this into consideration when investing in a company with a high financial leverage ratio, especially in times of rising interest rates.(wikinvest:online) Assets turnover and financial leverage ratio may be calculated as under:

Assets turnover ratio= $\frac{sales}{Totalassets}$

Financial leverage ratio= $\frac{Assets}{Equity}$

Table-5: Assets turnover ratio and Financial leverage ratio

Year	Net Sales	Total Assets	Assets turnover ratio	Equity	Financial leverage
2006	60899	92990	.6549	64020	1.452
2007	75008	104869	.7152	73333	1.43
2008	82578	127031	.65	84170	1.509
2009	98208	132512	.7411	99494	1.332
2010	114626	150295	.7627	115544	1.3
2011	134714	194444	.6928	138177	1.407
2012	160544	214538	.7483	162669	1.319
2013	179595	234476	.766	188447	1.244

Source: Annual Reports of Square Pharmaceuticals Ltd. from 2006 to 2013.

From table-5, assets turnover and financial leverage ratio have been depicted. The highest turnover is shown in 2013. It is evident from this table that the assets turnover ratio has been increased gradually in the later years of the study period. This ratio is .6549 in 2006 and it has been increased in the next year i.e. in 2007. But in 2008 it has come down to .65 again. This ratio has been increased in consecutive two years. It is .7411 in 2009 and .7627 in 2010. Of course, in 2011 this ratio has come down again to .6928. Again it has been increased in the next two years and it is .7483 in 2012 and .766 in 2013. So, it may be concluded that the efficiency of management of the firm is being increased gradually in managing and utilizing its assets. There is an inverse relation between assets turnover ratio and financial leverage ratio. The higher the assets turnover ratio, the lower the financial leverage and vise-versa. It is evident so from the above table. Gradually, the assets turnover has been increased and accordingly the financial leverage has also been deceased. The highest assets turnover ratio .766 is recorded in 2013 and inversely the lowest financial leverage ratio 1.244 is recorded in this year. Similarly, the lowest turnover ratio .65 is recorded in 2008 and the highest financial leverage 1.509 is recorded in this year. From this point of view, it is said that the financial leverage ratio of the company is being decreased gradually. It indicates that the burden of debt of the company is being gradually decreased and accordingly the cost of debt/capital is also being decreased. It is evident from this table that in each year the inverse relation between assets turnover ratio and financial leverage ratio has been effectively established.

2.7. Return on Assets (Earning Power) and Return on Equity

The various profitability ratios have been determined earlier throw the light on the profitability of a firm from the view point of i) the owners of the firm ii) the operating efficiency of the firm. The ratio covered under the rate of return to the equity-holder fall under the first category. The operating efficiency of a firm in terms of efficient utilization of the resources is reflected in net profit margin. It has been observed that although a high profit margin is a test of better performance, a low margin does not necessarily imply a lower rate of return on investments if a firm has a higher rate of return on investment/asset turnover. Therefore, overall operating efficiency of a firm can be assessed on the basis of combination of the two. The combined profitability is referred to as earning power/return on assets ratio. The earning power ratio is defined as the overall profitability of an enterprise (Khan & Jain:2008:6.31).

. Earning Power

= Net profit margin×Assets turnover= $\frac{Earning after tax}{Sales} \times \frac{Sales}{Total assets} = \frac{EAT}{Total assets}$

The usefulness of the integrated analysis lies in the fact that it presents the overall picture of the performance of a firm as also enables the management to identify the factors which have a bearing on profitability. Only profit margin ratio or investment turnover cannot give an overall view of profitability as whole. One can give profitability ratio on the basis of sales but cannot give on the basis of investment and another one can give profit margin on the basis of investment but not on the basis of sales.

The profitability analysis on ROA can be extended further for a detailed examination of the return on equity (ROE). It is the most important measure of financial performance from the point of view of equity-holders. The ROE can be decomposed into three following principal components (Khan & Jain:2008:6.31).

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ROE= Net profit margin×Assets turnover×financial leverage/Equity multiplier

ROE= $\frac{Earning after tax}{sales} \times \frac{Sales}{Assets} \times \frac{Assets}{Equity} = \frac{EAT}{Equity}$

The above three components are in the ROE are the indicative of net profit margin (profitability), Assets turnover (efficiency in operations) and financial leverage (indicating the extent to which assets are financed by the owner's fund). The investors always remain in the thirst to know the status of the profit in respect of their investment. In this respect the Return on Equity (ROE) is the best tool to measure the integrated profitability (Khan & Jain:2008:6.31).

Table-6: Earning Power (Return on Assets) and Return on Equity (in percentage)

Year	Earning after tax (EAT)	Total Assets	Earning Power	Equity	Return on Equity
2006	11659	92990	12.538	64020	18.21
2007	13032	104869	12.427	73333	17.77
2008	13819	127031	10.878	84170	16.418
2009	18901	132512	14.263	99494	19
2010	20879	150295	13.892	115544	18.07
2011	25321	194444	13.022	138177	18.325
2012	28977	214538	13.506	162669	17.813
2013	33414	234476	14.25	188447	17.731

Source: Annual Reports of Square Pharmaceuticals Ltd. from 2006 to 2013.

From the above table, it is seen that the return on assets or earning power of Square Pharmaceuticals Ltd. has a stable trend. The lowest return rate has been recorded 11% in 2008 and then 12% in 2007. In 2006, 2011 and 2012, it is recorded 13% and the highest return is recorded in the year of 2009, 2010 and 2013. The return on equity is seen in this company also more stable. The lowest return on equity is recorded16% in 2008 and the highest return is shown 19% in 2009. In the other years of the study period i.e. in 2006, 2007, 2010, 2011, 2012 and 2013, it is 18%. So, it may be said that the management of the company is efficient and sound enough in handling their fund as well as the assets of the company. They are able to keep overall stability in running the business, because the return on assets (earning power) and return on equity is the indicative of overall efficient management and utilization of assets as well as overall profitability of the company. The rate of return on assets and on equity that revealed in the study is an auspicious sign for the company under the study.

III. Findings and Recommendations of the study

3.1. Findings

Many significant findings have been found out from the analysis of the data collected for conducting study which are as follows:

i) Square Pharmaceuticals Ltd. cannot maintain sufficient liquidity that may be resulted falling into crisis of working capital at any time. From the analysis of the study as in Table-1, it is inferred that it has been occurred so because of financing the current assets in higher volume from short-term sources. The company finances the current assets from long-term sources and short-term sources on an average 36% and 64% respectively during the study period**.** Company may earn higher volume of profit but it is risky for it. It may be termed as aggressive financing policy. On the other hand, the collection period of accounts receivable is satisfactory. From the analysis of accounts receivable turnover, it is found that accounts receivables are collected on an average 02(two) times in a month. From that point of view, the company is not supposed to fall into the crisis of working capital.

ii) Although the net profit rate is satisfactory but it is not consistent with the gross profit i.e. is not high as high is gross profit. It has been happened because of higher operating and other non-financial expenses. From this analysis, an inverse relation has been found out between net profit and operating expense which is compliance with the accounting operation.

iii) Inventory turnover ratio may be considered not so satisfactory. It is 03 (three) to 04 (four) times in a year. The low turnover ratio implies the overinvestment in inventory that locks up a large amount of working capital and its carrying cost is also high. So, the inventory management of Square Pharmaceuticals Ltd. cannot be told efficient.

iv) Accounts receivable turnover ratio is considered very much satisfactory. This ratio is all on the average two times in a month. It implies the prompt payment of accounts receivable as well as increase of sales volume that is evident in the analysis of the study. Inventory turnover ratio is low although the sales volume has an increasing trend, so it is happened due to unnecessary-earlier purchase of raw materials.

v) An inverse relation between assets turnover ratio and financial leverage ratio has been effectively established. The asset management and utilization skill of Square Pharmaceuticals Ltd. is being gradually increased. Accordingly the financial leverage ratio is being decreased i.e. cost of debt of the company is being reduced gradually.

vi) The overall efficiency of management of Square Pharmaceuticals Ltd. has been revealed from the analysis of return on assets and return on equity. Because it is an integrated analysis of asset management as well as profitability of a business. Ultimately, it has been evident that the management of Square Pharmaceuticals Ltd. is able to keep stability as well as consistency in running the business almost in all respects because of increasing the earning power and on the other hand decreasing the dependence on debt.

3.2. Recommendations

Suggestions and Recommendations have been presented on the basis of findings within the purview of the study. In fact, the financial performance of Square Pharmaceuticals Ltd is almost satisfactory, yet the researcher thinks to recommend some matters for the improvement of the company.

i) The management of Square Pharmaceuticals Ltd. should look at the liquidity of the company so that the company is not to face working capital crisis.

ii) The production planning and inventory control (PPIC) department of Square Pharmaceuticals Ltd. should be more efficient in managing the inventory so that the raw materials are not unnecessarily purchased earlier that blocks the capital as well as increases the carrying cost of inventory. If it is possible to do so, the company can expand its activities without investing additional capital.

iii) In order to overall development of Square Pharmaceuticals Ltd., an effective coordination should be maintained among the departments of the company and especially among the finance department, PPIC department and sales department. It will help the company to determine requirement of working capital, proper management of assets, proper production planning and increase the sales volume.

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