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A STUDY ON FINANCIAL PERFORMANCE OF PHARMACEUTICAL COMPANIES OF INDIA

Durgaben Ghanchi

ABSTRACT

The Indian Pharmaceutical sector is highly fragmented with more than 20,000 registered units. The pharmaceutical industry in India meets around 70% of the country's demand for bulk drugs, pharmaceutical formulations, chemicals, tablets, capsules, orals and injectable. There are two major things coming out, firstly, Indian Pharmaceutical Industry is growing in output, value, volume, number of units - steadily and showing resemblance to the entire growth story of Indian Economy. Secondly, there is a major change occurring to the very basic system of pharmaceutical business in India. By issuing the patent ordinance, India met a WTO commitment to recognize foreign product patents from 1st January 2005, the culmination of 10 year process. In this new scenario, the Indian Pharmaceutical manufacturers would not be able to manufacture patented drugs which they have been doing since long although by another process. This study has been undertaken for critical assessment of pharmaceutical industry of India. The study period is five years from 2015-16 to 2019-20 to analyse the financial performance of leading pharmaceutical companies and comparison amongst them.

KEYWORDS: Pharmaceutical, Financial Performance, Profitability, India.

INTRODUCTION:

The Indian pharmaceuticals market is third largest in terms of volume and thirteen largest in terms of value, as per a pharmaceuticals sector analysis report by equity master. The market is dominated majorly by branded generics which constitute nearly 70 to 80 per cent of the market. Considered to be a highly fragmented industry, consolidation has increasingly become an important feature of the Indian pharmaceutical market.

India has achieved an eminent global position in pharma sector. The country also has a huge pool of scientists and engineers who have the potential to take the industry to a very high level.

The UN-backed Medicines Patents Pool has signed six sub-licences with Aurobindo, Cipla, Desano, Emcure, Hetero Labs and Laurus Labs, allowing them to make generic anti-AIDS medicine TenofovirAlafenamide (TAF) for 112 developing countries.

Market Size:

The Indian pharmaceutical industry is estimated to grow at 20 per cent compound annual growth rate (CAGR) over the next five years, as per India Ratings, a Fitch Group company. Indian pharmaceutical manufacturing facilities registered with US Food and Drug Administration (FDA) as on March 2014 was the highest at 523 for any country outside the US.

We expect the domestic pharma market to grow at 10-12 per cent in FY15 as compared to 9 per cent in FY14, as per a recent report from Centrum Broking. The domestic pharma growth rate was 11.9 per cent in October 2014, highlighted the report.

Gujarat clocked the highest growth rate in pharmaceuticals market at 22.4 per cent during November 2014, surpassing the industry growth rate, which grew by 10.9 per cent, as per data from the market research firm AIOCD Pharmasofttech AWACS.

Also, growing at an average rate of about 20 per cent, India's biotechnology industry comprising bio-pharmaceuticals, bio-services, bio-agriculture, bio-industry and bioinformatics may reach the US$ 7 billion mark by the end of FY15, according to an industry body. Biopharma is the largest sector contributing about 62 per cent of the total revenue, with revenue generation to the tune of over Rs 12,600 crore (US$ 2.03 billion). The bio-pharma sector comprises vaccines, therapeutics and diagnostics.

LITERATURE REVIEW:

Dr.R.Kavitha (2014) undertook a study to examine the effect of all 8 factors of capital structure over financial leverage .For this purpose sample data set of total 21 large Indian pharmaceutical companies for the period of 10 years from 2002-03 to 2011-12 was considred. In order to do an analysis descriptive as well as quantitative statistics as well as multiple regression was used. finding of the study indicate that out of 8 factors 4 factors { size, profitability, tangibility and debt service capacity} are found to be stastically significant while remaining four factors are found to be insignificant .Further researcher recommended that policy makers should focus on these determinants while making any decision regarding capital structure.

Chette Srinivas Yadav (2014) investigates the relationship between financial leverage and determinants of capital structure by considering sample of 50 listed firms on NSE during the period 2002-2012 and taking 10 factors as an independent variables and financial leverage as an dependent variables .Study used ANOVA model which indicate all determinants has a significant relationship with leverage .Further with the help of correlation found that 3 factors {liquidity, debt service, growth} are positively correlated to debt equity ratio while rest are negatively related.

Mr. Ram Chandra das ,Pro.Nikhil Bhushan Dey (2013) has done a research study on "Capital structure analysis of selected petroleum companies in india".Sample of 12 companies selected out of 32 defined petroleum companies for the period of 2000-2001 to 2009 -2010.For data analysis Regression, ANOVA ,t-test and several descriptive statistics has been used.It is found that all the selected companies of PII are running with low debt fund are running with low debt fund HOECL largely employing shareholders funds in their assets and EOL is on high degree financial risk.

M.s Ramaratnam, R. Jayaraman (2013) has done an study on "Determinants of capital structure with special reference to Indian pharmaceutical sector "By undertaking a sample of 24 companies from pharmaceutical sector they have analyzed the influence of independent variables such as tangibility ratios ,return on total assets, net profit margin .with respect to dependent variables of leverage ratio. Using multiple regression analysis in their study they found that tangibility ratio, return on total assets and net profit margin are the major determinants of Indian pharmaceutical sector.

Dr. Sukhdev Singh (2015) done a research over the "Emerging trends in corporate capital structure patterns-A study of selected manufacturing industries "By taking a sample of 19 manufacturing companies for a period of 10 years from 2002-2003 to 2011-2012 he studied the future rising trends of debt in pharma industry and rising trends in equity in cement industry 2019-2020.His study found to be identical with pecking order theory and trade off theory.

Dr. A. K. Adhikaray, Mr. Bhatt Satyaki (2015)done a research study on "Capital structure patterns of selected consumer electronic company". the objective of their study is to to examine the existence of inter firm and inter industry difference in the capital structure of Indian firms as well as to determine the financing pattern of capital structure of electronic firm based from 2005 to 2014 comprising of 5 companies .Results of the study indicate a significant difference in the determinants of long and short term forms of debt as well as most of the determinants are found to be relevant for firms.

Anju Bala &Poonam Gautam (2014) done a research study on "Impact of debts on the capital structure patterns: A study of a company listed on the Bombay Stock Exchange "The objective of their study is to test the variation among the industries and also among the individual firms among the same industry. data were collected for the period 10 years considering a sample of 25 companies .In order to study the variations of capital structure patterns ANOVA and Ratio Analysis techniques have been applied .They found capital structure patterns among

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selected industries significantly different.

Ashim Gupta (2016) has done a analytical study over the topic of "Capital structure Practices: Industry Wise Analysis of Companies "The objective of there is to study the variation in the capital structure practices .For this purpose they have collected the data based on 4 sectors for the period of 2005-2014.In order to examine the variation ratio analysis techniques has been used .His study resulted that nature of industry influence the capital structure practices practices of corporate firms and the industry group under study have market inclination towards shareholders fund in capital structure .

Sudesh Kumar, Dr. Bimal Anjum, Dr. Suman Nayaar (2012) conducted a research study on "Cost analysis of financing decision a study of pharmaceutical industry in India". The objective of their study is to measure the effects of changes in capital structure on the cost of capital of various pharmaceutical companies .this study analyse the significance of cost of capital for the period of 2007-2014.Using trend analysis in their study they concluded that capital structure decision of the pharmaceutical companies has a very little effect on cost of capital because companies becoming the risk averse with the passage of time therefore companies using maximum equity financing in the recent period.

K Padmini, C. Sivarami Reddy (2012) conduct a research study on "Capital structure of selected Indian pharmaceutical industry". The objective of their study is to asses the long term solvency through debt equity ratio to asses the impact of financial leverage on the earning of shareholders .For this purpose 12 pharmaceutical companies have choosen and categorized into 3 distinct group. A) Better performing Company B) Moderate performing Companies C)Low performing companies .Application of Ratio analysis, trend analysis and stastical test has been undertaken. It has been found that BPC's and MPC's of IPI depended on equity financing where LPC's on debt financing .The degree of financial leverage did not alter the earning of shareholders favourably in IPI.The interest coverage has been sufficient in BPC's and MPC's therefore justification for the use of debt is valid but the reverse in case of LPC.

Gurmeet Singh (2013) studied the "Interrelationship between capital structure and profitability with special reference to manufacturing industry in India" .The objective of there is to study the interrelationship between capital structure and profitability based on capital structure and business revenue. Sample of 110 manufacturing firm selected using multi-stage sampling technique. Regression analysis in addition to descriptive research such as mean, std.deviation and ratios has been used. The study proves capital structure variables and profitability variables ,ROA,ROCE and the capital structure has a significant influence on profitability and their study and also proves that increase in debt funds in capital structure reduce profitability to some extent.

RESEARCH OBJECTIVE:

1. To study the financial performance of selected pharmaceutical companies.
2. To compare the profitability and liquidity of selected pharmaceutical companies.

RESEARCH METHODOLOGY:

Universe:
In the research study selected 5 Pharmaceutical companies.

Period of Data Coverage:
Five years of financial statements have been analysed for Pharmaceutical companies taken under study.

DATA ANALYSIS:

1. Operating Profit Ratio:

NAME	2015-16	2016-17	2017-18	2018-19	2019-20	AVG
Cipla Limited	25.83	21.20	19.35	17.06	14.54	19.60
Cadila Healthcare Ltd	19.21	19.96	29.03	36.14	9.93	22.85
Lupin Limited	26.45	32.57	34.58	35.81	35.17	32.92
Sun Pharmaceutical Industries Limited	21.07	0.60	-6.69	-5.71	1.23	2.10
Piramal Enterprises Ltd	-8.98	3.47	18.51	41.73	48.73	20.69
AVERAGE	16.72	15.56	18.96	25.01	21.92	19.63

Higher the ratio company indicates sound financial position whereas lower the ratio company has weak financial position. From above tables and charts it can be seen that during year 2015-16 on an average pharmaceutical companies has sound financial position while year 2016-17 is weakest of all time. With on an average 32.92 Operating profit ratio value Lupin Limited stood number one whereas with 2.10 average Operating profit ratio value Sun Pharmaceutical Industries Limited stood at the last position. Significant downward in Operating ratio value can be observed in Sun Pharmaceutical Industries Limited during year 2015-16 to 2016-17.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2476.709	4	619.1773	3.592944	0.023052	2.866081
Within Groups	3446.629	20	172.3315			
Total	5923.339	24				

Thus, Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is significant difference in Operating Profit Ratio between selected five pharmaceutical companies.

2. Gross Profit Ratio:

NAME	2015-16	2016-17	2017-18	2018-19	2019-20	AVG
Cipla Limited	22.14	17.75	15.08	13.40	9.98	15.67
Cadila Healthcare Ltd	16.03	16.81	25.02	33.00	2.17	18.61
Lupin Limited	24.34	30.70	31.13	33.10	32.30	30.31
Sun Pharmaceutical Industries Limited	17.55	-3.00	-15.20	-11.80	-4.19	-3.33
Piramal Enterprises Ltd	-14.53	-0.66	14.81	39.47	46.23	17.06
AVERAGE	13.11	12.32	14.17	21.43	17.30	15.67

Without an adequate gross margin, a company will be unable to pay its operating and other expenses and build for the future. In general, a company's gross profit margin should be stable. It should not fluctuate much from one period to another, unless the industry it is in has been undergoing drastic changes which will affect the costs of goods sold or pricing policies. From the above Gross profit ratio table it can be seen that during year 201-16 pharmaceutical companies' Gross profit ratio is highest whereas during year 2016-17 pharmaceutical companies' Gross profit ratio value is lowest. With 30.31 Gross profit ratio value Lupin Limited stood number one whereas with average -3.33 average Gross profit ratio value Sun Pharmaceutical Industries Limited stood at the last position, which indicates that company has highest COGS compare to its revenue generated.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2929.67	4	732.4174	3.68035	0.021069	2.866081
Within Groups	3980.151	20	199.0075			
Total	6909.82	24				

Thus, Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is significant difference in Gross Profit Ratio between selected five pharmaceutical companies.

3. Debt Equity Ratio:

NAME	2015-16	2016-17	2017-18	2018-19	2019-20	AVG
Cipla Limited	0.01	0.01	0.02	0.01	0.01	0.01
Cadila Healthcare Ltd	0.29	0.25	0.15	0.08	0.19	0.19
Lupin Limited	0.02	0.01	0.01	0.01	0.01	0.01
Sun Pharmaceutical Industries Limited	0.02	0.34	0.15	0.18	0.09	0.16
Piramal Enterprises Ltd	0.07	0.08	0.11	0.48	0.19	0.19
AVERAGE	0.08	0.14	0.09	0.15	0.10	0.11

Debt equity ratio shows company's obligations to long term creditors in relation to finds invested by the owners. This ratio also tells the extent to which the company depends upon outsiders for its existence. If this ratio is higher, it indicates risky financial position while lower ratio indicates safe financial position. From the above Debt equity ratio it can be seen that during year 2015-16 pharmaceutical companies has safest financial position while during year 2018-19 pharmaceutical companies least safe financial position. Lupin Limited and Cipla Limited are the safest pharmaceutical companies whereas Piramal Enterprises Ltd and Cadila Healthcare Ltd have weakest financial position.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.169056	4	0.042264	4.191194	0.01262	2.866081
Within Groups	0.20168	20	0.010084			
Total	0.370736	24				

Thus, Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is significant difference in Debt Equity Ratio between selected five pharmaceutical companies.

4. Capital Gearing Ratio:

NAME	2015-16	2016-17	2017-18	2018-19	2019-20	AVG
Cipla Limited	113.72	97.04	57.76	71.74	51.02	78.26
Cadila Healthcare Ltd	2.98	3.47	5.58	8.83	4.68	5.11
Lupin Limited	14.18	19.46	28.21	35.05	29.42	25.27
Sun Pharmaceutical Industries Limited	25.74	2.72	6.30	5.55	11.02	10.27
Piramal Enterprises Ltd	12.73	12.51	8.86	2.06	5.20	8.27
AVERAGE	33.87	27.04	21.34	24.65	20.27	25.43

Capital gearing ratio is a useful tool to analyze the capital structure of a company and is computed by dividing the common stockholders' equity by fixed interest or dividend bearing funds. From the above Capital gearing ratio it can be concluded that pharmaceutical companies is less geared during the year 2015-16 whereas highly geared during latest year of study period. With 5.11 average Capital gearing ratio Cadila Healthcare Ltd is highly geared company amongst all pharmaceutical companies taken under study whereas Cipla Limited with 78.26 average Capital gearing ratio is less geared company.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	18640.04	4	4660.01	26.36158	9.98E-08	2.866081
Within Groups	3535.456	20	176.7728			
Total	22175.49	24				

Thus, Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is significant difference in Capital Gearing Ratio between selected five pharmaceutical companies.

CONCLUSION:

The effectiveness of a firm significantly depends on the efficient utilization of its financial resources. Shareholders provide capital to a company with the expectation of earning a competitive rate of return from their investment and if this expectation is not fulfilled they may sell their shares which may push down market price of the company's stock. This will tend to jeopardize its ability to raise additional capital resources in the capital market. The growth potential of an ongoing business comes from its retained earnings. The importance of efficient capital structure has greatly enhanced during the last decade due to continuous inflation. It has had a tremendous effect on the financial operations of business firms. High interest rates have pushed up the cost of capital. At the same time, it has increased the need of financial resources for operating a given volume of business. Working capital requirements and financial outlays on replacement, modernization, and expansion have greatly increased. Consequently, financial managers are faced with the problem of raising additional capital resources. Their task has been made more difficult by the government policy of restricting the supply of lonable funds. The task of long-range financial planning has also been rendered difficult by frequent changes in the prices of labour and materials. Inflation has thus made the efficient capital structure task more difficult but at the same time more important and more challenging for financial managers. In short, capital structure focuses on efficient financial decision making within the firm.

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