

A STUDY ON FINANCIAL PERFORMANCE AND STABILITY OF SELECTED PHARMACEUTICAL COMPANIES IN INDIA

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Abstract

The Study consists of the following objectives. The objectives are To measure the financial performance indicators of the selected pharmaceutical firms by using Six Power Analysis, To determine the profitability of the Sample firms, To examine the operating earning power of the selected pharmaceutical firms in India, To rank the selected pharmaceutical firms based on their financial performance indicators and stability, earning power and market based performance. The researcher identified the Top 5 Pharmaceutical firms based on Market Capitalization. The firms are Cipla, Dr.Reddy, GlaxoSmithKline, Lupin and Sun Pharmaceutical. Out of the five sample companies,viz., GlaxoSmithKline, Sun Pharmaceuticals, Lupin, Dr. Reddys and Cipla Holds. It is clearly understood that financial performance indicators ratio can predict 100% profitability position of a firms.

Key Words: Financial Performance, Market Capitalization and Profitability

JEL: E6

1. Introduction

Firm's performance is the measurement for what had been achieved by a firm which shows good condition for a certain period of time. The purpose of measuring the achievement is to obtain useful information related to flow of fund, the use of funds, effectiveness, and efficiency. Besides, the information can also motivate the managers to make the best decision.

2. Review of Literature

Aggarwal & Singla (2001) attempted to identify from among the 11 ratios, used as inputs, those ratios, which are relevant in distinguishing between profit and loss making units in the Indian Paper Industry. The study indicated the model and has correctly classified 82.14% of the units selected as profit making and loss marking. The study also showed the inventory turnover ratio, interest coverage ratio, net profit to total assets and earnings per share are the most important indicators of financial performance. The study also suggested that the results of MDA can be used as a predictor of future profitability/sickness.

Diane White (2008) refers that the accounts receivable is an important analytical tool for measuring the efficiency of receivables operations is the accounts receivable turnover ratio. Many firms sell goods or services on account. This means that a customer purchases goods or services from a firm but does not pay for them at the time of purchase. Payment is usually due within a short period of time, ranging from a few days to a year. These transactions appear on the balance sheet as accounts receivable.

Chandra Kumar mangalam & GovindaSamy (2010) in their research related to, „Leverage – An Analysis and its Impact on Profitability with Reference to Selected Cement firms in India“, stated that the leverage and profitability and growth are related and the leverage is having an impact on the profitability of the firm.

3. Objectives of the Study

1. To measure the financial performance of the selected pharmaceutical firms by using Six Power Analysis
2. To rank the selected pharmaceutical firms based on their financial performance indicators and stability, earning power and market based performance.

4. Hypotheses

H₀₁: There is no significant difference between financial performance indicators of the selected pharmaceutical firms.

5. Methodology

A purposive sampling method has been followed which is one that is selected based on the knowledge of a population and the purpose of the study. The firms are

selected because of some basic characteristic.

There are approximately 250 large scale pharmaceutical units in the industry. This Pharmaceutical industry can be divided into three categories: Large market capitalization, Medium Market capitalization and small market capitalization. There are 44 large market capitalization firms listed in NSE and BSE. The researcher considered top 5 pharmaceutical firms in India based on Market capitalization. Thus the purposive sampling technique will be appropriate for the study. Their firms are as follows:

Table 1

List of Top Five Pharmaceutical Firms Based On Market Capitalization

Sl. No.	Firm	Market Capitalization	RANKING
1.	Sun Pharmaceutical Industries Ltd	114,638.92	I
2.	Lupin Limited	39,849.09	II
3.	Dr. Reddy's Laboratories Ltd	39,435.49	III
4.	Cipla Limited	33,261.02	IV
5.	GlaxoSmithKline Pharmaceutical Ltd	21,301.11	V

The selection of top 5 pharmaceutical firms was identified based on 44 large market capitalization firms from the entire pharmaceutical industry in India. Pharmaceutical firms are further classified into their nature of business. They are as follows (a) Bulk Drugs, (b) Formulations and (c) Bulk Drugs & Formulations. The selection of the Firms was done from the third classification namely Bulk Drugs & Formulations Firms from the whole pharmaceutical industry in India.

Table 2**Ranking Profitability Determination Using Predicted Value**

Sl. No.	Name of the firm	Predicted Value	Rank
1.	Cipla Pharmaceutical Limited	57.74932	III
2.	Dr. Reddy Laboratory	77.65885	I
3.	GlaxoSmithKline Pharmaceuticals Ltd.	37.50985	V
4.	Lupin Pharmaceutical Limited	72.59755	II
5.	Sun pharmaceutical Limited	41.76006	IV

Based on the rankings of profitability determination using predicted value Dr. Reddy's laboratory was ranked first (77.65885), followed by Lupin Pharmaceutical Limited (72.59755) was ranked second. Cipla Pharmaceutical Limited was ranked third (57.74932), Sun pharmaceutical Limited was ranked fourth (41.76006) and GlaxoSmithKline Pharmaceuticals Ltd was ranked fifth (37.50985).

6. Analysis and Discussion

Hypothesis

H₀₁: There is no significant difference between financial performance indicators of the selected pharmaceutical firms.

Profitability Position						
		Sum of Squares	df	Mean Square	F	Sig.
Net Profit Margin Ratio	Between Groups	6115.1897	4	1528.7974	26.89	<.0001
	Within Groups	2558.0475	45	56.8455		
	Total	8673.2372	49			
Operating Profit Margin Ratio	Between Groups	2781.2102	4	695.3026	5.86	0.00069
	Within Groups	5338.2726	45	118.6283		
	Total	8119.4828	49			
Gross Profit Margin Ratio	Between Groups	8687.8231	4	2171.9558	9.52	<.0001
	Within Groups	10267.4984	45	228.1666		
	Total	18955.3214	49			
Effective Tax rate Ratio	Between Groups	3771.7786	4	942.9447	17.4	<.0001
	Within Groups	2438.9739	45	54.1994		
	Total	6210.7526	49			
Return on Capital Employed Ratio	Between Groups	15343.4661	4	3835.8665	17.6	<.0001
	Within Groups	9809.9936	45	217.9999		
	Total	25153.4596	49			
Asset Utilization Position						
		Sum of Squares	df	Mean Square	F	Sig.
Fixed Asset Turnover Ratio	Between Groups	1579.418	4	394.8545	90.18	<.0001
	Within Groups	197.0237	45	4.3783		
	Total	1776.4417	49			

Total Asset Turnover Ratio	Between Groups	3.780188	4	0.945047	36.65	<.0001
	Within Groups	1.16034	45	0.025785		
	Total		49			
Liquidity Position						
		Sum of Squares	df	Mean Square	F	Sig.
Current Ratio	Between Groups	33.6227	4	8.4057	5.3	0.001387
	Within Groups	71.3414	45	1.5854		
	Total		49			
Quick Ratio	Between Groups	51.393148	4	12.848287	12.89	<.0001
	Within Groups	44.86122	45	0.996916		
	Total		49			
Cash Ratio	Between Groups	49.546508	4	12.386627	16.92	<.0001
	Within Groups	32.93919	45	0.731982		
	Total		49			
Leverage Position						
		Sum of Squares	df	Mean Square	F	Sig.
Debt – Equity Ratio	Between Groups	2.419132	4	0.604783	3.64	0.011851
	Within Groups	7.47687	45	0.166153		
	Total		49			
Capitalization Ratio	Between Groups	4.240132	4	1.060033	21.67	<.0001
	Within Groups	2.20131	45	0.048918		
	Total		49			
Interest Coverage Ratio	Between Groups	24705.0954	4	6176.2739	10.54	<.0001
	Within Groups	26374.7013	45	586.1045		
	Total		49			

Cash Flow To Debt Ratio	Between Groups	55.6765	4	13.9191	7.97	<.0001
	Within Groups	78.5798	45	1.7462		
	Total	134.2564	49			
Cash Flow Position						
		Sum of Squares	df	Mean Square	F	Sig.
Operating Cash Flow To Sales Ratio	Between Groups	0.308028	4	0.077007	5.49	0.001096
	Within Groups	0.63106	45	0.014024		
	Total	0.939088	49			
Cash Flow Coverage Ratio	Between Groups	1225.6334	4	306.4083	7.58	<.0001
	Within Groups	1819.5252	45	40.4339		
	Total	3045.1586	49			
Capital Expenditure Coverage Ratio	Between Groups	82.5729	4	20.6432	4.65	0.003156
	Within Groups	199.6914	45	4.4376		
	Total	282.2643	49			
Dividend Coverage Ratio	Between Groups	8100.1568	4	2025.0392	2.74	0.040084
	Within Groups	33231.9808	45	738.4885		
	Total	41332.1376	49			
Dividend Payout Ratio	Between Groups	7306.095	4	1826.5238	7.8	<.0001
	Within Groups	10541.5188	45	234.256		
	Total	17847.6138	49			
Growth Position						
		Sum of Squares	df	Mean Square	F	Sig.
Price To Earning (PE) Ratio	Between Groups	652.0717	4	163.0179	0.64	0.536720
	Within Groups	11432.7227	45	254.0605		
	Total	12084.7944	49			
Price To	Between Groups	16610.4840	4	4152.6210	16.63	<.0001

Earning (PE) To Growth Ratio	Within Groups	11236.2345	45	249.6941		
	Total	27846.7185	49			
Dividend Yield Ratio	Between Groups	142.0324	4	35.5081	14.92	<.0001
	Within Groups	107.0892	45	2.3798		
	Total	249.1216	49			

The above table shows financial performance ratio indicators of selected pharmaceutical firms. The ratios were grouped under six categories and name as six power analysis. The categories are Profitability position, Asset utilization ratio, Liquidity position, Leverage position, Cash flow position and growth position. In profitability position 5 ratios were considered. In Asset utilization ratio 2 rations were considered. In liquidity position 3 ratios were utilized. To determine the leverage position 4 ratios were considered. In cash flow position 5 ratios were considered. Finally in to assess the growth position 3 ratios were used.

In profitability position, only operating profit margin has significant difference between selected pharmaceutical firms. The remaining ratios Net Profit Margin Ratio, Operating Profit Margin Ratio, Gross Profit Margin Ratio, Effective Tax rate Ratio and Return on Capital Employed Ratio have no significant difference between selected pharmaceutical firms.

In Asset Utilization Ratio, both the ratios Fixed Asset Turnover Ratio and Total Asset Turnover Ratio have no significant difference between selected pharmaceutical firms. In Liquidity Ratio, only Current Ratio has significant difference between selected pharmaceutical firms. The other ratio Quick Ratio and Cash Ratio have no significant difference between selected pharmaceutical firms. In Leverage Ratio, only Dept-Equity ratio has significant difference between selected pharmaceutical firms. Capitalization Ratio, Interest Coverage Ratio and Cash flow to Dept ratio have no significant difference between selected pharmaceutical firms.

In Cash Flow Position, Operating Cash Flow to Sales Ratio, Capital Expenditure Coverage Ratio and Dividend Coverage Ratio has significant difference between selected pharmaceutical firms. Other ratios Cash Flow Coverage Ratio and Dividend Payout Ratio have no significant difference between selected pharmaceutical firms. In Growth Position, Only a price to earnings ratio has significant difference between selected pharmaceutical

firms. The remaining ratios like Price to Earning (PE) To Growth and Dividend Yield Ratio have no significant difference between selected pharmaceutical firms.

6. Conclusion

Overall empirical findings show that Firms differ in their profitability position, while checking with different financial tools and techniques. It is clearly understood that financial performance indicators ratio alone could not predict 100% profitability position of a Firm. Earning Power, Financial health and stability and market based performance are also strongest predictors, which also should be essentially considered while determining the performance of a Firm. Thus in future to measure financial performance indicators and stability, Six Power Analysis, Gross Profit Margin – Multiple Regression Approach, should be essentials ingredients of traditional and latest financial technique.

8. Suggestions

- i Efficiency in the matter of management of working capital should be strengthened, which helps the Firm to maintain good financial health and liquidity.
- ii The Firm should finance through their profits, instead of debt, which will help sustainable growth and the Firm has to identify the level of debt and utilize it properly.

References

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