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A Study on Financial Performance of Pharmaceutical Company

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ABSTRACT

Indian Pharmaceutical division is very disjointed with more than 20,000 registered units. The pharmaceutical and organic industry in India is a very fragmented bazaar with simple value rivalry and administration price regulator. There are almost 250 great units and around 8000 small-scale elements, which method the essential of the Pharmaceutical Manufacturing in India (counting 5 central public sector units) Perceiving fast, the worldwide pharma marketplace stands valued to extra than dual to $1.3 billion by the year 2020.The Indian Pharmaceutical Developed is developing extremely individually year. Hence a sweat has been over to study the effectiveness location of the industry with the profit of cruel, standard deviation, co-efficient of variation, multiple regression, and study of change. The growth in profitability will not only yield greater effectiveness then also advance financial performance in future.

Keywords: *Financial risk, Business risk, Capital Structure, Leverage, Market Value.*

INTRODUCTION

The Indian Pharmaceutical Production is an achievement level if service for loads and certifying that important medicines at reasonable values are accessible to the massive populace of this sub-continent." The Indian Pharmaceutical Manufacturing today is in the obverse rampant of India's science-based productions through wide-ranging abilities in the composite ground of drug creation and knowledge. He ranks actual tall in the third world, in relations of knowledge, superiority and choice of tablets factory-made. From humble pain pills to classy antibiotics and compound cardiac mixes, nearly each type of medication is now complete indigenously singing a key part in helping and supporting expansion in the vibrant pitch of tablets. Indian Pharma Manufacturing swanks of value manufacturers and several elements have been agreed by the governing experts in USA and UK. Global enterprises related with this area have moved, assisted and spearheaded this dynamic development in the past 53 years and helped to put India on the pharmaceutical plot of the world.

Succeeding the de-licensing of the Pharmaceutical Manufacturing, trade allowing for greatest of the medicines and pharmaceutical harvests has remained done absent through. Producers are free to harvest any medicine accordingly accepted by the medicine controller expert. Technically durable and wholly self-reliant, the Pharmaceutical Manufacturing in India eats low prices of manufacture, low R&D prices, advanced logical manpower, asset of state factories and an growing stability of employment. The Pharmaceutical Manufacturing, with its rich technical gifts and study aptitudes, supported by logical property defense government is fine set to uncivilized on the global marketplace

Till the arrival of creation rights in January 2005, only procedure charters stayed appropriate in India, which effectively complete it a squat cost, general marketplace. As a effect, industrial expertise and efficacy were the only goods to contribute in this manufacturing, making squat walls of access. As a result, the foremost Indian pharmaceutical businesses have develop about of the greatest effectual industrial units in the world. In detail, India has the maximum amount of US FDA (Food and

Drug Administration) expert manufacturing services outdoor the Combined States. There are an growing quantity of chances with big Indian producers & agreement industrial administrations for the gradually cost-conscious firms.

Financing choices are one of the greatest serious areas and the stimulating work for the finance executives, as, It has straight influence on the financial act and money assembly of the firms. The finance executive of each firm is permanently observing to exploit the financial well-being of the holders as signified by the marketplace worth of the firm. For this purpose, he takes to take quantity of fallouts similar asset, backing and extra results. The financing result is mostly includes two selections. The initial is the extra excellent – the delivery of reserved pays to be cultivated spinal and to be salaried out as extras. Another is a excellent of wealth assembly – the quantity of outside finance to be rented and the quantity to be high in the technique of novel fairness. In actual intellect, the results around together the excellent would not effect on the price of the fixed. Since these results are linked to also the procedure of delivery, kind of haven, or brand up of the possession assembly, but not to the asset choice. Usually, the companies consume the inner and outside bases of trust in its money assembly to finance their savings. Inner bases contain booked salaries and reduction; while the outside bases contain of novel borrowings or the staple of dividends.

REVIEW OF LITERATURE

This chapter presents a review of previous studies relating to the research problem selected for the present study and enables the researcher to have an in-depth knowledge over the various concept of research problem. A review of the important studies and different concepts relating to the financial performance has been presented. In this regard, the researcher has referred to various academic journals, magazines, books etc.

Bhabatosh Banerjee (1982) in his study on "Corporate liquidity and profitability in India" has identified the relationship of liquidity with profitability by analyzing the trend of liquidity position of medium and large public limited companies in India covering the period 1971-78. His study reveals that the industrial groups belonging to publishing, ferrous and non- ferrous products and shipping have a direct relationship between the liquidity and profitability and vice versa, but tobacco, silk and rayon textiles have an indirect relationship.

LathaArun Reddy (1983) has conducted a study on "Profitability and growth- Indian Manufacturing Industries" with the main objective of examining the relationship between growth and profitability using regression models and compound growth rate. Her study covers a period of 24 years from 1950-52 to 1973-74. The author observes that the paper industry exhibits a strong positive correlation between growth and profitability.

STATEMENT OF THE PROBLEM

The development of industries depends on several factors such as finance, personnel, technology, quality of the product and marketing. Out of these, financial and operating aspects assume a significant role in determining the growth of industries. All of the company‟s operations virtually affect its need for cash. Most of the data covering operational areas are however outside the direct responsibility of the financial executive. Unless the top management appreciates the value of a good financial and operating analysis, there will be continuing problems for the financial executives to find the profitability position of the concern.

In this context the researcher is interested in undertaking an analysis to find the financial performance of Pharmaceutical Industry. Hence, the present study entitled "a study on financial performance of Pharmaceutical Industry in India" has been undertaken.

OBJECTIVES OF THE STUDY

The following are the specific objectives of the study.

1. To analyse the profitability position of selected Pharmaceutical Companies in India.

2. To analyse the factors influencing the profitability of selected Pharmaceutical Companies in India.

3. To offer findings and suggestions and conclusion of this study.

SCOPE OF THE STUDY

The present study aims at assessing the profitability position of Pharmaceutical Industry in India. The study could help the company as well as the investors to understand its financial efficiency. It aims to help the management to find out its financial problems at present and the specific areas in the business, which might need some effort for more effective and efficient utilization of its resources.

METHODOLOGY

Sources of Data

Secondary data is used for the study. The required data for the study is collected and compiled from “PROWESS” database of Centre for Monitoring Indian Economy (CMIE) for the period from 2009-2010 to 2013-2014 which is a reliable and empowered corporate database. In addition to this, supportive data is collected from books, journals, annual reports and various news-papers.

Sample Design

As the complete source list of all the Pharmaceutical Companies is not available, the data for this study is selected based on convenience sampling method. Among the companies listed with major stock exchange of India namely, Bombay Stock Exchange and National Stock Exchange of India, 10 companies with consistent financial data are selected. Certain companies are excluded owing to irregular and/or inconsistent financial data support.

The following are the selected Pharmaceutical companies of this study

- Sun Pharma Industries
- Dr.Reddy’s Laboratories Ltd
- Cipla

ANALYSIS OF PROFITABILITY

The profitability can be measured with the help of the given ratios.

- Gross Profit Ratio
- Net Profit Ratio

Table 1
Gross Profit Ratio

(Rs. in crores)

Company Name	Mean	S.D	C.V
Sun	**103.032**	**1.8175**	**1.764**
Dr.Reddy	**108.603**	**1.6028**	**1.4759**
Cipla	**96.4846**	**3.003**	**3.1125**

Source: Compiled and Calculated from the data published in CMIE

Table 1 reveals the gross profit ratio of selected Pharmaceutical Companiesin India from 2009-2010 to 2013-2014. This gross profit ratio shows a fluctuating trend during the study period. It implies the high cost of goods sold due to unfavorable purchasing policies and lesser sales. The Dr.Reddy Laboratories Ltd has the highest average gross profit ratio of 108.6026 per cent and the Ranbaxy Laboratories Ltd has the lowest average gross profit ratio 75.1998 per cent.

The AurobindoPharma Ltd has the highest standard deviation of gross profit ratio of 47.7337 per cent. The Dr.Reddy Laboratories Ltd with lowest standard deviation of gross profit ratio of 1.6028 per centand it is found to be stable in gross profit ratio.

The AurobindoPharma Ltd has the highest co-efficient variance of gross profit ratio of 55.32013 per cent. The Dr.Reddy Laboratories Ltd has the lowest co-efficient variance of gross profit ratio of 1.4759 per centand it is found that there is a consistency in gross profit ratio than the other Pharmaceutical Companies.

Table 2
Net Profit Ratio

(Rs. in crores)

Company Name	Mean	S.D	C.V
Sun	**42.1325**	**5.3716**	**12.7494**
Dr.Reddy	**17.826**	**8.0472**	**45.143**
Cipla	**17.9913**	**2.2143**	**12.308**

Source: Compiled and Calculated from the data published in CMIE

Table 2 reveals the net profit ratio of selected Pharmaceutical Companies in India from 2009-2010 to 2013-2014. The net profit ratio shows the fluctuating trend during the study period. This fluctuation indicates the firm’s capacity to face adverse economic condition such as price competition, low demand etc. The Sun Pharma Ltd has the highest average net profit ratio of 42.1325 per cent and the Alpa has the lowest average net profit ratio of 3.6666 per cent.

The Ranbxy Laboratories Ltd has the highest standard deviation of net profit ratio of 16.8014 per cent. The Aventis Pharma Ltd with lowest standard deviation of net profit ratio of 2.1052 per centand it is found to be stable in net profit ratio.

The Ranbaxy Laboratories Ltd has the highest co-efficient variance of net profit ratio of 251.7230 per cent. The Aventis Pharma Ltd has the lowest co-efficient variance of net profit ratio of 12.1193 per cent and it is found that there is a consistency in net profit ratio than the other Pharmaceutical Companies.

SUGGESTIONS

- The companies should utilize an innovative technology and it may increase the product range. This will increase the export sales. The result will be increasing the foreign exchange earnings.
- The companies may concentrate on their cost of production, investment in fixed assets and their sales turnover to improve their profitability.

CONCLUSION

Almost reveals that gross profit ratio, operating ratio, return on equity capital, and earnings per share the financial strength plays a significant part in the successful management of a company. The analysis, have significant consequence on the net profit ratio of the designated pharmaceutical companies during the study period. However, profitability of the selected pharmaceutical firms in India through the study period is satisfactory. During the period of study there were a few ups and downs in the profitability but it did not affect the operations of the company to a great extent. If the Pharmaceutical Industry has to the perform well, it has to invest further capital and has to do more sales, only then it will improve its performance level.

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