Research Paper Commerce

A Comparative Study of Profitability of Selected Pharma Companies of India

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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 of ten years from 2004-05 to 2013-14 to analyse the profitability performance of leading pharmaceutical companies and comparison amongst them.

KEYWORDS : Pharmaceutical, Financial Performance, Profitability, Indian

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.

INVESTMENTS

Union Cabinet has given its approval to amend the existing FDI policy in the pharmaceutical sector in order to cover medical devices. The Cabinet has allowed FDI up to 100 per cent under the automatic route for manufacturing of medical devices subject to specified conditions.

The drugs and pharmaceuticals sector attracted cumulative foreign direct investment (FDI) inflows worth US$ 12,813.02 million between April 2000 and December 2014, according to data released by the Department of Industrial Policy and Promotion (DIPP).

ROAD AHEAD

The pharma market size is expected to grow to US$ 85 billion by 2020. The growth in Indian domestic market will be on back of increasing consumer spending, rapid urbanisation, and raising healthcare insurance and so on.

Going forward, better growth in domestic sales will depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers are on the rise.

Moreover, the government has been taking several cost effective measures in order to bring down healthcare expenses. Thus, governments are focusing on speedy introduction of generic drugs into the market. This too will benefit Indian pharma companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharma companies.

LITERATURE REVIEW

The analysis of Profitability of Pharmaceutical Industry of India is a particular area ofwork hence not a very popular matter to write on. There are number of articles andresearch papers published for Profitability and for Pharmaceutical Industry of Indiabut nothing is specifically of relevance for the present study.

The present study is a unique work of research which is for selected companies understudy and for a specified period. There are some technical points included apart fromthe financial research. These are TRIPS, WTO, Patent Regime, various national andinternational pharmaceutical manufactures' association.

The work of Keshab Das on TRIPS and its political implication has been referred bythe researcher to get the insights into the matter. Professor Robert Tancer has workedon Indian Pharmaceutical Industry

as an investment destination. Robert Warren hasworked for the pharmaceutical industry.

Similar sort of work has been carried out in the same university before a long timeperiod of 16 years. The study was emphasized on the working capital management,entitled "Working Capital Management of Pharmaceutical Industry in India" byDr.Shashi A. Jain in the year 1990. The study tried to make an in-depth analysis ofthe working capital management of the selected pharmaceutical companies for aperiod of time.

Another major research work has been carried out in the year 1992 byDr.Akhileshwar Sharma on the topic "Profitability Analysis of Drugs andPharmaceutical Companies in India" in May 1992. This study tried to find out theprofitability position of various selected units during that period of time using severalcriteria.

But the above work were carried out in the scenario when economy was in a closedstate. The steps for liberalization by privatisation and globalisation were initiated bythen Prime Minister of India Lt. Shri Narsimha Rao, and afterwards a gradual shiftwas found in the entire economy of India.

With the WTO agreement and de-regulation of prices and the implementation ofPatent Act there is a dramatic change observed in the pharmaceutical industry of Indiawhich makes the background for the study.

There are lot of information available about the industry at national and internationallevel from the Internet and it can be accessed through various search engines.

RESEARCH OBJECTIVE

1. To study various ways to measure the profitability of selected pharmaceutical companies.
2. To identify any relationship in-between companies in the various measures of profitability
3. To study the pharmaceutical industry of India

RESEARCH METHODOLOGY

SOURCES OF DATA

Secondary sources of data will be utilised for this proposed research study

Secondary data have been collected from Company Annual Reports.

UNIVERSE

In the research study selected 14Pharmaceutical companies.

PERIOD OF DATA COVERAGE

Ten years of financial statements will be analysed for Pharmaceutical companies taken under study.

ANALYSIS OF DATA

The proposed statistical tools for the analysis of data are ratio analysis and ANOVA test.Gross Profit Margin Ratio and Net Profit Margin Ratio are used to analyse the performance of companies selected for the

proposed research study.

DATA ANALYSIS

GROSS PROFIT MARGIN RATIO

COMPANY	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Alembic Ltd	12.99	3.25	-13.94	-3.96	5.10	7.79	11.46	14.96	16.19	14.23
Ambalal Sarabhai Enterprises Limited	-104.55	-175.47	-72.83	-32.45	-32.79	-187.61	-74.13	-29.81	-29.52	-7.05
Cadila Healthcare Ltd	13.82	14.79	10.10	10.95	17.91	17.13	15.04	14.41	6.82	3.12
Coral Laboratories Limited	17.27	14.95	15.59	13.76	16.54	12.91	12.69	22.29	25.30	15.92
Dishman Pharmaceuticals & Chemicals Limited	27.90	27.27	24.44	17.10	27.41	31.35	20.95	23.75	21.80	25.21
Gujarat Terce Laboratories Ltd.	2.15	0.81	0.56	3.21	4.08	2.84	3.25	4.10	2.80	2.55
Gujarat Themis Biosyn Limited	16.73	5.80	-38.90	-15.90	2.24	-14.76	-0.07	-85.77	-3.50	4.36
Lincoln Pharmaceuticals Limited	7.87	7.22	6.53	6.04	8.35	8.03	9.81	8.11	6.91	7.71
Sun Pharma Advanced Research Company Limited.	17.91	-23.09	-252.19	-16.46	-62.97	-34.47	-12.32	N.A.	N.A.	N.A.
Sun Pharmaceuticals Industries Ltd	N.A.	N.A.	N.A.	N.A.	9.86	0.79	6.01	26.73	27.81	N.A.
Themis Medicare Limited	7.39	2.32	-15.68	6.34	6.25	-0.03	7.73	8.05	1.31	8.84
Torrent Pharmaceuticals Limited	29.16	21.96	17.01	19.36	24.28	19.34	19.40	17.55	16.45	16.03
Unjha Formulations Ltd.	1.60	1.89	1.45	2.63	-0.51	5.15	-0.49	-9.93	-53.16	-18.11
Zenith Health Care Ltd.	-15.23	-7.67	-2.84	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	7.27

N.A.-Not Available

Based on above charts and graph it can be observed that Pharma companies have negative value during the year 2009, 2012 and 2013. In the earlier years of Pharma companies' inception this ratio was high and then in following years this ratio drops drastically which seems that company has high cost of COGS compare to revenue generated in middle age of years to recent years. COGS values decreasing drastically compare to revenue from year 2010-11 to 2012-13.

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	94894.76	13	7299.5969	8.3081718	1.529E-11	1.8077229
Within Groups	99282.306	113	878.60448			
Total	194177.07	126				

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

So, null hypothesis is rejected and it is concluded that the difference is seen in Gross Profit Margin Ratio of selected pharmaceutical companies.

NET PROFIT MARGIN

COMPANY	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Alembic Ltd	17.42	6.06	-9.58	-6.24	2.01	0.65	11.18	10.00	12.31	9.86

Ambalal Sarabhai Enterprises Limited	-99.78	-48.47	-24.26	-2.63	3.58	16.60	-11.61	-30.62	-5.87	-8.18
Cadila Healthcare Ltd	11.04	10.21	12.26	15.34	13.64	10.30	11.06	12.73	11.04	10.39
Coral Laboratories Limited	15.12	14.04	13.82	12.48	13.39	9.51	8.41	18.43	20.98	10.07
Dishman Pharmaceuticals & Chemicals Limited	16.39	12.67	9.43	9.21	19.38	21.97	16.93	21.74	20.33	18.56
Gujarat Terce Laboratories Ltd.	0.83	0.23	0.13	1.15	0.69	0.16	1.11	0.37	0.12	0.64
Gujarat Themis Biosyn Limited	14.89	3.73	-44.72	-24.03	-6.93	-28.49	-10.99	-101.53	-14.27	-4.38
Lincoln Pharmaceuticals Limited	5.44	5.01	2.79	3.25	4.87	3.82	5.24	4.84	4.41	4.09
Sun Pharma Advanced Research Company Limited.	17.12	-25.30	-244.40	-14.47	-62.53	-25.93	-13.00	N.A.	N.A.	N.A.
Sun Pharmaceuticals Industries Ltd	-94.65	19.35	38.94	41.91	33.99	31.43	31.01	26.69	25.85	24.78
Themis Medicare Limited	0.87	-5.36	-24.73	4.35	8.39	-5.02	5.05	5.01	3.42	5.38
Torrent Pharmaceuticals Limited	22.41	18.85	14.16	16.39	14.30	15.51	15.56	12.63	9.41	10.66
Unjha Formulations Ltd.	1.86	1.83	1.37	2.62	-1.24	3.95	-8.16	-15.57	-58.43	-21.99
Zenith Health Care Ltd.	-8.04	0.20	0.28	5.87	4.75	0.56	-3.07	-0.27	3.55	1.54

N.A.-Not Available

Zigzag trend can be seen from the above charts and tables. This ratio indicates that how much amount company is keeping as net profit from the revenue generated. Higher the ratio indicating company is keeping more amount of revenue as net income in contrary it can be said that company doesn't have any future project where investment will be required or want to show more profit and give dividend to shareholders. Year 2005 has very sound financial position of Pharma companies while 2012 has weakest financial position of all time.

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	40185.211	13	3091.1701	4.3967559	4.501E-06	1.8005194
Within Groups	86476.013	123	703.05702			
Total	126661.22	136				

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

So, null hypothesis is rejected and it is concluded that the difference is seen in Net Profit Margin Ratio of selected pharmaceutical companies.

CONCLUSION

In the earlier years of Pharma companies' inception Gross profit margin ratio was high and then in following years this ratio drops drastically which seems that company has high cost of COGS compare to revenue generated in middle age of years to recent years. COGS values decreasing drastically compare to revenue from year 2010-11 to 2012-13.Year 2005 has very sound financial position of Pharma companies while 2012 has weakest financial position of all time. During year 2005 pharmaceutical companies keeping more amount as net profit from the revenue generated which indicates that companies'don't have any future project where investment will be required or want to show more profit and give dividend to shareholders.Difference is seen in Gross Profit Margin Ratio of selected pharmaceutical companies. Difference is seen in Net Profit Margin Ratio of selected pharmaceutical companies

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