A Survey of Pharmaceutical Companies – with Respect to Return on Net Capital Employed

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ABSTRACT *Net capital employed refers to the total assets less the current liabilities. This ratio can be described as one of the significant measure of profitability as the current liabilities are deducted with a logic that the part of total assets which would be utilized to pay to current liabilities will not be permanently invested in the business. Hence the amount of total assets equaling to current liabilities is deducted from the gross capital employed and thus remaining part of total assets is the amount which is referred as net capital employed in this research paper I try to make the analysis of return on net capital employed among top ten pharmaceutical companies in India. Statistical result shows that there is a significance difference between return on net capital employed among different companies under study as well as different years of each company.*

INTRODUCTION : -

The Indian Pharmaceutical Industry is no less than a success story as it has provided employment for millions and made the drugs available to the vast population of the country at very affordable prices. The Indian pharmaceutical industry with a domestic market turnover of Rs 18,000 Crores and growing at five per cent as per the MAT - ORG September 2003 is poised for a paradigm shift. The Indian pharmaceutical industry has moved through several phases of ups and downs. The evolution and growth of the Indian pharmaceutical industry has been largely driven by regulatory forces — the DPCO (Drug Price Control Order), which regulated the prices of bulk drugs and formulations, and the Indian Patent Act, which granted

process patents but not product patents. Pharmaceutical Business came into existence in India in the year 1901 when Bengal Chemicals and Pharmaceutical Company started its production in Calcutta. Since then there is no looking back and today India

has become one of the leading pharmaceutical products manufacturing nation. This fact would become evident by the current scenario of the industry, wherein it is not just meeting the increasing demand of the huge population of the country, but also exporting the products to other developing and developed countries of the world including the USA.

METHODOLOGY : -

The study was based on the secondary data which were obtained from the annual reports of the selected companies as well as publications & journals related with pharmaceutical industries in India. The top ten companies which are included in the analysis is Ranbaxy Ltd., Dr. Reddy's Laborataries Ltd., Cipla Ltd., Sun pharmaceutical Industries Ltd., Lupin Ltd., Aurbindo Pharmaceutical Ltd., Glaxo Smithkline Ltd., Cadila Healthcare Ltd., Aventis Ltd., IPCA Laboratories Ltd. After the data collection processed and analyzed according to the outline Hypothesis are formulated and proved with the use of statistical tools to arrive at certain conclusion.

DATA ANALYSIS & FACTS FIGURES : -

Table 1 : - Return On Net Capital Employed In Pharmaceutical Companies Under Study (In Rs. Crores)

Name Of The Company	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Ranbaxy	17.66	28.29	10.36	25.50	32.38	33.24	35.27
Dr. Reddy	16.51	2.39	7.25	10.26	25.56	32.33	32.61
Cipla	24.51	25.02	23.25	25.36	28.65	30.21	33.34
Sun Pharma.	39.14	16.94	22.32	25.36	32.32	35.21	33.11
Lupin	20.25	10.23	22.28	29.30	33.54	30.21	31.00
Aurobindo	15.77	5.41	12.15	26.37	34.21	32.24	34.29
Glaxo	17.35	15.25	25.32	28.35	35.28	36.27	37.25
Cadila	19.27	16.6	26.32	29.33	34.21	35.28	36.28
Aventis	20.36	17.27	28.35	29.55	35.21	36.24	37.25
IPCA	24.66	19.29	28.99	30.55	36.20	38.25	34.29

There is a consistence change observed between RONCE of the Ranbaxy ltd. It lies in between 10.36 to 35.27 with an average 26.10 lower compared to overall average of 26.43 among the selected companies. Apart from the year 2005-06 the trend shows upward consistence progress in the RONCE of the company.

Dr. Reddy's Laborataries shows some slope down wards during the year from 2004-05 to 2006-07 but than from the year 2007-08 it shows consistence upward trend there will be also very low average of 18.13 comapred with the average 26.43 of selected companies. The company can be reliable and consistence as far as RONCE.

Cipla limited shows a consistence upward trend during the entire study period except in the year 2005-06. There will be very balnced increase in the RONCE. The RONCE lies between 23.25 to 33.34 during the year from 2003-04 to 2009-10. The

gap between highest and lowest values shows the absence of any major fluctuations in the RONCE of the company.

Sun Pharmaceutical shows a inconsistence trend during the study period with minor fluctuations there will be up and down between the two years but there will be good average of 29.20 slighter more than the overall averege of selected companies in the study.

Lupin Ltd. Has made a successful attempt to stabilize after few hiccups during the starting few years. This un-stability cause serious concern to the shareholders of the company. the average of 25.26 is quite lower than the overall average of 26.43 of the selected companies in the study period which will create some serious problem to the company in future.

There is no particular trend observed in the RONCE of the Aurbindo Pharma Ltd. It lies between 5.41 to 34.29 with an

averege of 22.92 which is lower compared to overall average of 26.43 for the selected companies in the study period.

Glaxo shows a steady and increasing trend during the seven years of the study period. It shows 15.25 to 37.25 RONCE during the research period which will be very consistence during the study period and there wan't be major ups and downs shown there. Averege is around 27.87 is quite nearer to the overall averge 26.43 of the selected companies in the study.

Cadila Pharma shows consistence increasing trend except during the second year during the study period. There will be an averege 28.18 which will be very fine average by all standards compared with only 26.43 averege of the selected companies in the study.

Aventis is the only company which shows a continuous incrising trend during the study period. It lies between 17.27 to 37.25 with an average of 29.18 which is quite positive compared with the overall average of 26.43 of the selected companies in the study period.

IPCA Laboratories Shows a continuous increasing trend during the study period. this is the first company which shows clear and upward trend during the study period. This can be possible with the continuous improvement in the financial management of the company. the highest value is in the year 2008-09 38.25 while the lowest value is 17.27 in the year 2004-05. But average is quite good compared with overall average of the selected companies which gives idea that there is more potentialities in the company.

F – TEST (ANOVA) ANALYSIS : -

In order to establish relationship between RONCE among different Pharmaceutical companies under study during the study period and for establishing relationship between RONCE among different years for each company, F – Test (ANOVA) is used. The statements of hypothesis for the comparison among the different companies and for comparison among different years for individual companies during the study period are as under.

Hypothesis for comparison between different companies : -
Null Hypothesis (H0) : - "The RONCE between different companies under study during the study period is same."

Alternate Hypothesis (Ha) : - "The RONCE between different companies under study during the study period is not same."

Hypothesis for comparison between different years : -
Null Hypothesis (H0) : - "The RONCE between different years during the study period is same."

Alternate Hypothesis (Ha) : - "The RONCE between different years during the study period in each company is not same."

In the following table – 2 the calculation of F –Test (ANOVA) is shown between RONCE for the Pharmaceutical Companies under study during the study period.

Table 2 : - Table Showing The Calculation Of F –Test (ANOVA)

sv	d.f.	s.s.	m.s.s.	Fcal.
Between Companies	9	1640.5710	182.285667	1.51433925
Between Years	6	710.57	118.428333	0.98384407
Error	54	6500.1459	120.373072	
Total	69	8851.2869		

CONCLUSION : -

The Above Table- 2 shows the F Calculated value of 1.51 at 5 % level of significance and at (9,54) degree of freedom for different pharmaceutical companies under study during the study period which is less than the table value of 2.06 hence the null hypothesis is accepted and the alternate hypothesis is rejected, which means that there are similarities among the different companies under study in RONCE.

F Calculated value of 0.98 at 5 % level of significance and at (6,54) degree of freedom is less than the table value of 2.27 hence the null hypothesis is accepted and the alternate hypothesis is rejected, which means that there are similarities among the different year's RONCE for all the individual companies.

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