

A Study on comparative Financial Status of selected companies of Indian Pharmaceutical Industry using Efficiency ratios

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ABSTRACT

Performance & financial management involves the deployment of various tools, techniques, and systems to help an organization implement its strategies and plans, and support the achievement of organizational objectives. Efficiency ratios measures the effectiveness and efficiency with which the resources available to the company are utilized or managing the assets of the firm. These ratios establish the relationship between operating activity / sales and various types of current assets and fixed assets. The said research is financial performance evaluation of selected Pharmaceutical Indian companies in last seven years 2009-10 to 2015-16. Five Companies from each capitalization (Large, Mid, Small) have been selected for the study on the basis of their Market Share in the industry. The conclusion states that Lupin limited has the highest efficiency ratio in the Large cap segment, Aarti Drugs Limited in the mid cap segment enjoys the highest efficiency ratio and similarly Mangalam Drugs & Organics Limited was at peak in small cap segment.

Keywords: Financial performance, pharmaceutical industry, comparison, efficiency ratio.

1.INTRODUCTION

Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. The financial analyst program provides vital methodologies of financial analysis. "The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and Performance." (Met calf, 1976) The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account.

Each group has its own interest in tracking the financial performance of a company. Analysts learn about financial performance from data published by the company, also known as the annual report. The purpose of the report is to provide stakeholders with accurate and reliable financial statements that provide an overview of the company's financial performance. In addition, these statements are audited and signed by the leadership of the company along with a number of other disclosure documents. In this way, the Financial Statement represents the most comprehensive source of information on financial performance made available for investors on an annual basis. Financial statements included the balance sheet, the income statement and the cash flow statement. (Investopedia,2017). Thus, the term 'financial statements' generally refers to three basic statements: The Balance Sheet , The Income Statement and The Cash Flow Statement.

RESEARCH OBJECTIVE

- To examine Comparative financial status of selected Companies using efficiency ratios.

SOURCES OF DATA

The said research work is based on the secondary Data of published financial statement of various selected Indian Pharmaceutical companies. Data of various financial parameters have been obtained from the Annual Reports of the companies directly from the official web sites of the company.

SAMPLING METHOD

Five Company from each capitalization have been selected for the study on the basis of their Market Share in the industry. Hence we can conclude that over all we have selected Fifteen (15) companies for research work and we have examined their financial data for seven years.

Thus one hundred and five (105) financial statements have been examined.

TIME PERIOD

The study cover time span of seven years from 2009-10 to 2015-16

TOOLS & TECHNIQUES

The performance of the companies is examined on the basis of Efficiency ratio.

DATA ANALYSIS

Efficiency analysis for Large, Mid and Small capital companies

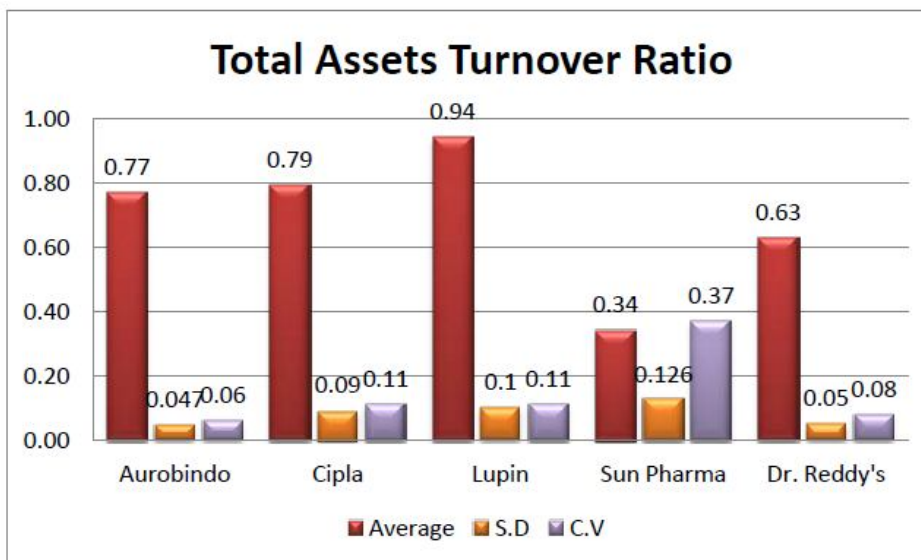
1. Large Capitalization Company

1.1 Total Assets Turnover Ratio

Table 1.1

Total Assets turnover Ratio					
	Aurobindo	Cipla	Lupin	Sun Pharma	Dr. Reddy's
Average	0.77	0.79	0.94	0.34	0.63
Rank	3	2	1	5	4
S.D	0.047	0.09	0.1	0.126	0.05
Rank	1	3	4	5	2
C.V	0.06	0.11	0.11	0.37	0.08
Rank	1	3	4	5	2

Chart 1.1



An analysis Efficiency position of the Large Cap Company show that Lupin Ltd reported 0.94 times average Total Assets turnover Ratio which is highest compare to other sample units of Present study.

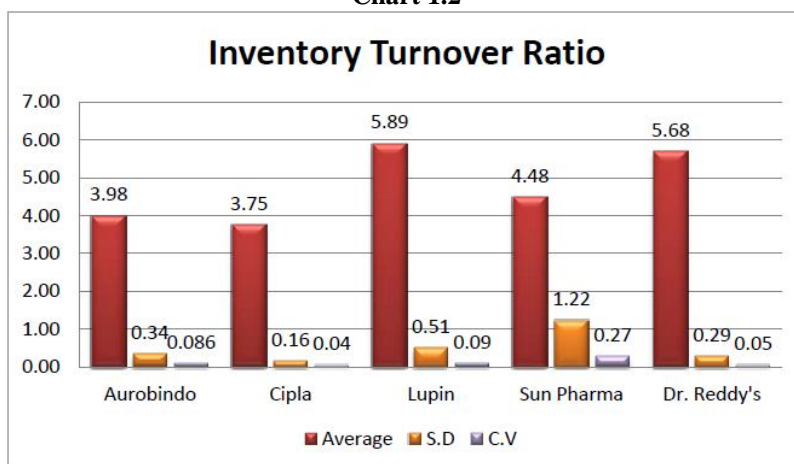
But it's Coefficient of Variance reported 0.11 which stands in 3rd position. Aurobindo pharma's Coefficient of Variance of average Total Assets Turnover Ratio reported 0.06, which is lowest compare to other sample company with Total Assets turnover Ratio 0.77 times (3rd Position). Dr Reddys Lab's average Total Assets Turnover Ratio reported 0.63 times (2nd Position) with 0.08 (2nd Position) Coefficient of Variance. Aurobindo Pharma and Dr. Reddy's Lab efficiently utilised their total assets with respect to sales.

1.2 Inventory Turnover Ratio

Table 1.2

Inventory turnover Ratio					
	Aurobindo	Cipla	Lupin	Sun Pharma	Dr. Reddy's
Average	3.98	3.75	5.89	4.48	5.68
Rank	4	5	1	3	2
S.D	0.34	0.16	0.51	1.22	0.29
Rank	3	1	4	5	2
C.V	0.086	0.04	0.09	0.27	0.05
Rank	3	1	4	5	2

Chart 1.2



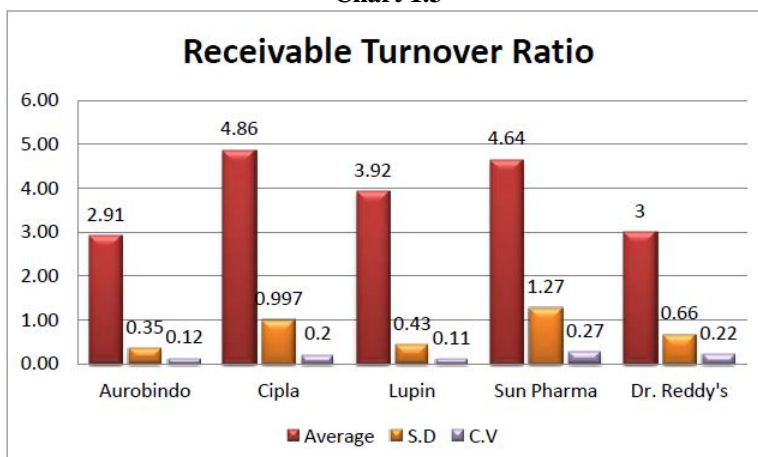
As per Table 1.2 and Chart 1.2, The highest average inventory turnover Ratio is reported by Lupin Ltd.(5.89 times). Co efficient of Variance of Lupin Ltd. is 0.09 which is more than Cipla (0.04) and Dr Reddy’s (0.05). Dr Reddys Lab’s average Inventory Turnover Ratio reported 5.68 times (2rd Position) with 0.05 (2rd Position) Coefficient of Variance. Dr Reddy Labs has been turned over its inventory 5.68 times (2rd Position) in business during a particular period. So Dr Reddy is effectively and consistently utilised its investment in stock.

1.3 Receivable Turnover Ratio

Table 1.3

Receivable turnover Ratio					
	Aurobindo	Cipla	Lupin	Sun Pharma	Dr. Reddy's
Average	2.91	4.86	3.92	4.64	3
Rank	5	1	3	2	4
S.D	0.35	0.997	0.43	1.27	0.66
Rank	1	4	2	5	3
C.V	0.12	0.2	0.11	0.27	0.22
Rank	2	3	1	5	4

Chart 1.3



As per Table 1.3 and Chart 1.3, The highest average Receivable turnover Ratio is reported by Cipla Ltd.(4.86 times). Co efficient of Variance of Cipla Ltd. is 0.2 which is more than Lupin (0.11) and Aurobindo (0.12). Lupin Ltd average Receivable Turnover Ratio reported 3.92 times (3rd Position) with 0.11 (1rd Position) Coefficient of Variance. Lupin Ltd has been turned over its receivable into cash 3.92 times (3rd Position) in business during a particular period. So Lupin Ltd. is effectively and consistently converted its receivable into cash during particular period.

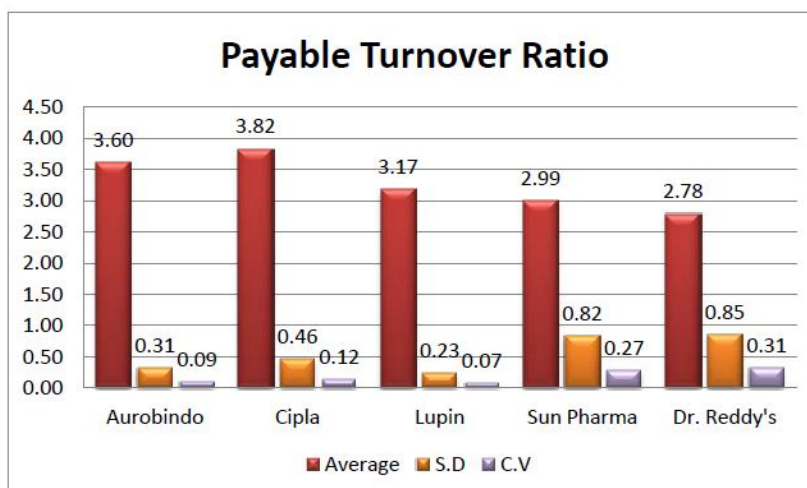
Lupin Ltd average Receivable Turnover Ratio reported 3.17 times (3rd Position) with 0.07 (1st Position) Coefficient of Variance. Lupin Ltd has been paid 3.92 times (3rd Position) to its creditor in business during a particular period. So Lupin Ltd. is effectively and consistently paid its supplier during particular period.

1.4 Payable Turnover Ratio

Table 1.4

Payable turnover Ratio					
	Aurobindo	Cipla	Lupin	Sun Pharma	Dr. Reddy's
Average	3.60	3.82	3.17	2.99	2.78
Rank	2	1	3	4	5
S.D	0.31	0.46	0.23	0.82	0.85
Rank	2	3	1	4	5
C.V	0.09	0.12	0.07	0.27	0.31
Rank	2	3	1	4	5

Chart 1.4



As per Table 1.4 and Chart 1.4, The highest average Payable turnover Ratio is reported by Cipla Ltd.(3.82 times). Co efficient of Variance of Cipla Ltd. is 0.12 which is more than Lupin (0.07) and Aurobindo (0.09).

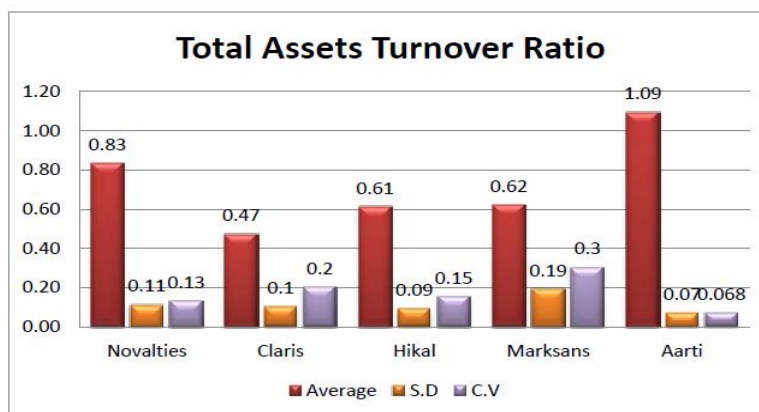
2. Mid Capitalization Company

2.1 Total Assets Turnover Ratio

Table 2.1

Total Assets turnover Ratio					
	Novalties	Claris	Hikal	Marksans	Aarti
Average	0.83	0.47	0.61	0.62	1.09
Rank	2	5	4	3	1
S.D	0.11	0.1	0.09	0.19	0.07
Rank	4	3	2	5	1
C.V	0.13	0.2	0.15	0.3	0.068
Rank	2	4	3	5	1

Chart 2.1



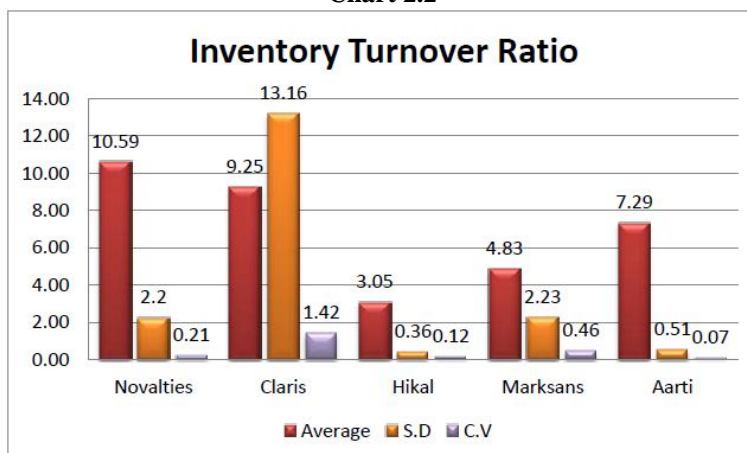
An analysis Efficiency position of the Mid Cap Company show that Aarti Drugs Ltd reported 1.09 times average Total Assets turnover Ratio which is highest compare to other sample units of Present sample study. And it's Coefficient of Variance reported 0.07 which stands in 1rd position.(Table 2.1 and Chart 2.1) Novartis Ltd's Coefficient of Variance of average Total Assets Turnover Ratio reported 0.13,(2nd position) with average Total Assets turnover Ratio 0.83 times (2rd Position) (as per Table and Chart). Aarti Drugs Lts and Novartis Ltd have efficiently utilised their total assets with respect to sales.

2.2 Inventory Turnover Ratio

Table 2.2

Inventory turnover Ratio					
	Novarties	Clariss	Hikal	Marksans	Aarti
Average	10.59	9.25	3.05	4.83	7.29
Rank	1	2	5	4	3
S.D	2.2	13.16	0.36	2.23	0.51
Rank	3	5	1	4	2
C.V	0.21	1.42	0.12	0.46	0.07
Rank	3	5	2	4	1

Chart 2.2



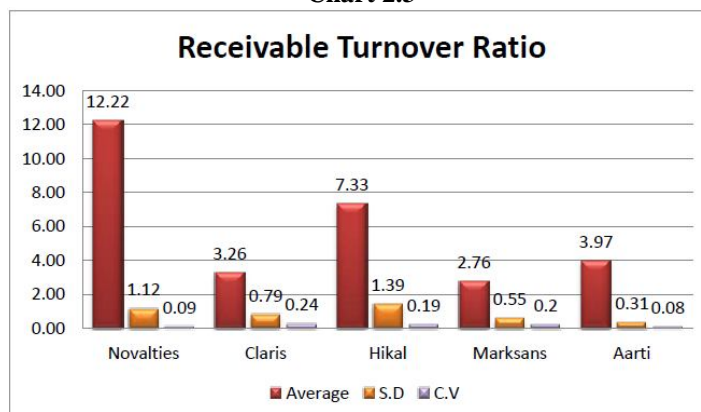
As per Table 2.2 and Chart 2.2, the highest average inventory turnover Ratio is reported by Novartis Ltd (10.59 times). Co efficient of Variance of Novartis Ltd. is 0.21 which is more than Aarti Drugs Ltd. (0.07) and Hikal Ltd (0.12). Aarti Drugs Ltd’s average Inventory Turnover Ratio reported 7.29 times (3rd Position) with 0.07 (1st Position) Coefficient of Variance. Aarti Drugs Ltd has been turned over its inventory 7.29 times (3rd Position) in business during a particular period. So Aarti Drugs Ltd. is effectively and consistently utilised its investment in stock.

2.3 Receivable Turnover Ratio

Table 2.3

Receivable turnover Ratio					
	Novarties	Claris	Hikal	Marksans	Aarti
Average	12.22	3.26	7.33	2.76	3.97
Rank	1	4	2	5	3
S.D	1.12	0.79	1.39	0.55	0.31
Rank	4	3	5	2	1
C.V	0.09	0.24	0.19	0.2	0.08
Rank	2	5	3	4	1

Chart 2.3



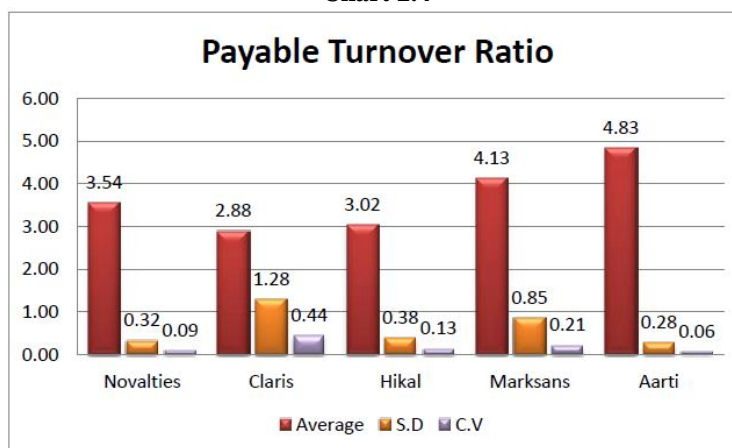
As per Table 2.3 and Chart 2.3, The highest average Receivable turnover Ratio is reported by Novartis Ltd.(12.22 times). Co efficient of Variance of Novartis Ltd. is 0.09 which is more than Aarti Drugs Ltd (0.08). Aarti Drugs Ltd’s average Receivable Turnover Ratio reported 3.97 times (3rd Position) with 0.08 (1st Position) Coefficient of Variance. Aarti Drugs Ltd has been turned over its receivable into cash 3.97 times (3rd Position) in business during a particular period. So Aarti Drugs Ltd. is effectively and consistently converted its receivable into cash during particular period.

2.4 Payable Turnover Ratio

Table 2.4

Payable turnover Ratio					
	Novarties	Claris	Hikal	Marksans	Aarti
Average	3.54	2.88	3.02	4.13	4.83
Rank	3	5	4	2	1
S.D	0.32	1.28	0.38	0.85	0.28
Rank	2	5	3	4	1
C.V	0.09	0.44	0.13	0.21	0.06
Rank	2	5	3	4	1

Chart 2.4



As per Table 2.4 and Chart 2.4, The highest average Payable turnover Ratio is reported by Aarti Drugs Ltd.(4.83 times). Co efficient of Variance of Aarti Drugs Ltd. is 0.06. Aarti Drugs Ltd has been paid 4.83 times (1st Position) to its creditor in business during a particular period. So we can say that Aarti Drugs Ltd. is effectively and consistently paid its supplier during particular period.

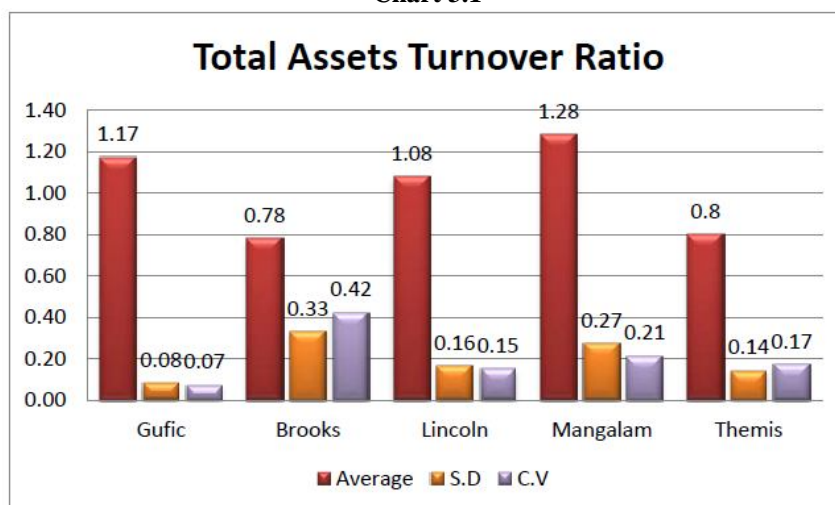
3. Small Capitalization Company

3.1 Total Assets Turnover Ratio

Table 3.1

Total Assets turnover Ratio					
	Gufic	Brooks	Lincoln	Mangalam	Themis
Average	1.17	0.78	1.08	1.28	0.8
Rank	2	5	3	1	4
S.D	0.08	0.33	0.16	0.27	0.14
Rank	1	5	3	4	2
C.V	0.07	0.42	0.15	0.21	0.17
Rank	1	5	2	4	3

Chart 3.1



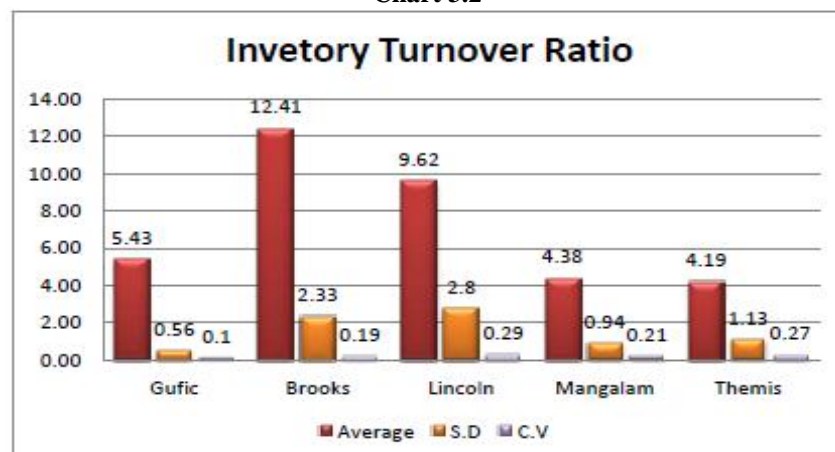
An analysis Efficiency position of the Small Cap Company show that Mangalam Drugs Ltd reported 1.28 times average Total Assets turnover Ratio which is highest compare to other sample units of Present study. And it’s Coefficient of Variance reported 0.21 which is more than Gufic Bio (0.07), Themis Medicare (0.17) and Lincoln Pharma (0.15), (As per Table 3.1 and Chart 3.1). Gufic Bio’s Coefficient of Variance of average Total Assets Turnover Ratio reported 0.07,(1st position) with average Total Assets turnover Ratio reported 1.17 times (2rd Position). So Gufic Bio has efficiently utilised their total assets with respect to sales (as per Table 3.1)

3.2 Inventory Turnover Ratio

Table 3.2

Inventory turnover Ratio					
	Gufic	Brooks	Lincoln	Mangalam	Themis
Average	5.43	12.41	9.62	4.38	4.19
Rank	3	1	2	4	5
S.D	0.56	2.33	2.8	0.94	1.13
Rank	1	4	5	2	3
C.V	0.1	0.19	0.29	0.21	0.27
Rank	1	2	5	3	4

Chart 3.2



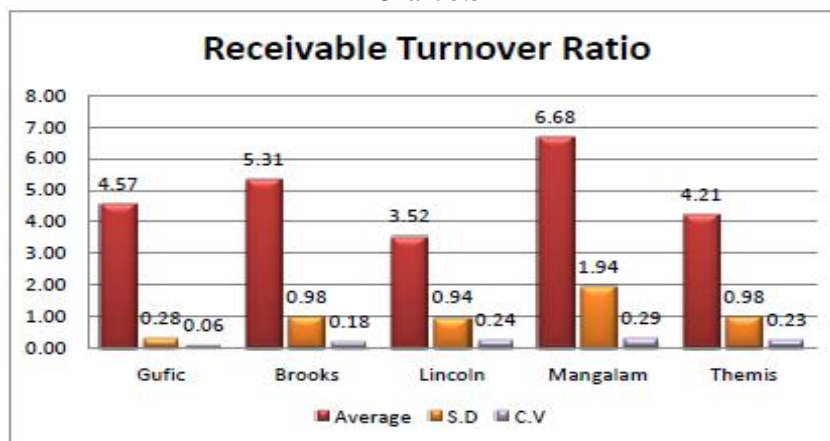
As per Table 3.2 and Chart 3.2, The highest average inventory turnover Ratio is reported by Brooks Lab (12.41 times). Co efficient of Variance of Brooks Lab is 0.19 which is more than Gufic Bio (0.1). Gufic Bio’s average Inventory Turnover Ratio reported 5.43 times (3rd Position) with 0.1 (1st Position) Coefficient of Variance. So we can say that Gufic Bio and Brooks Lab have been turned over its inventory 5.43 times (3rd Position) and 12.41 times (1st Position) in business during a particular period respectively. Gufic Bio and Brooks Lab is effectively and consistently utilised its investment in stock.

3.3 Receivable Turnover Ratio

Table 3.3

Receivable turnover Ratio					
	Gufic	Brooks	Lincoln	Mangalam	Themis
Average	4.57	5.31	3.52	6.68	4.21
Rank	3	2	5	1	4
S.D	0.28	0.98	0.94	1.94	0.98
Rank	1	3	2	5	4
C.V	0.06	0.18	0.24	0.29	0.23
Rank	1	2	4	5	3

Chart 3.3



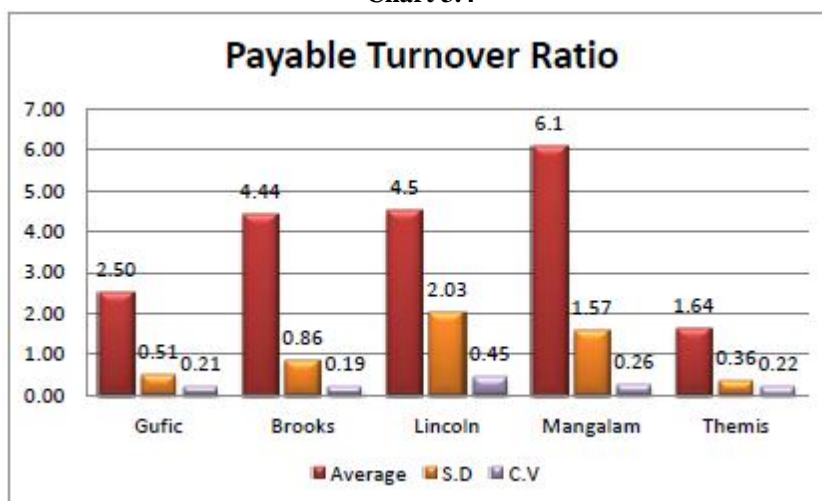
As per Table 3.3 and Chart 3.3, the highest average Receivable turnover Ratio is reported by Mangalam Drugs (6.68 times). But Co efficient of Variance of Mangalam Drugs is 0.29 which is highest compare to other samples company which shows instability. Gufic Bio’s average Receivable Turnover Ratio reported 4.57 times (3rd Position) with 0.06 (1rd Position) Coefficient of Variance. Gufic Bio has been turned over its receivable into cash 4.57 times (3rd Position) in business during a particular period. So we can say that Gufic Bio is effectively and consistently converted its receivable into cash during particular period.

3.4 Payable Turnover Ratio

Table 3.4

Payable turnover Ratio					
	Gufic	Brooks	Lincoln	Mangalam	Themis
Average	2.50	4.44	4.5	6.1	1.64
Rank	4	3	2	1	5
S.D	0.51	0.86	2.03	1.57	0.36
Rank	2	3	5	4	1
C.V	0.21	0.19	0.45	0.26	0.22
Rank	2	1	5	4	3

Chart 3.4



As per Table 3.4 and Chart 3.4, The highest average Payable turnover Ratio is reported by Mangalam Drugs (6.1 times). But Co efficient of Variance of Mangalam Drugs is 0.26 which is more than Brooks Labs (0.19),Gufic Bio (0.21) and Themis Medicare (0.22). Brooks labs average Receivable Turnover Ratio reported 4.44 times (3rd Position) with 0.19 (1st Position) Coefficient of Variance. Brooks Labs has been paid 4.44 times (3rd Position) to its creditor in business during a particular period. So we can say that Books Labs effectively and consistently paid its supplier during particular period

4.CONCLUSION

The Objective of the research was to examine comparative financial status of the selected Indian Pharmaceutical companies based on the efficiency ratios.

Efficiency Analysis of Large Capitalization companies

- Lupin Limited maintained its Assets Turnover Ratio 0.94:1, which was highest, compare to other Large Capitalization samples study. Lupin Limited has successfully utilized the fixed Assets to generate its Sales. On other hands Sun Pharma Limited Proved itself inefficient to utilized the fixed Assets to generate sale. Sun Parma Limited’s Assets Turnover Ratio was 0.34:1 which was lowest compare to other samples study.
- Lupin Limited maintained its Inventory Turnover Ratio 5.89:1, which indicates that Company converts 5.89 times its inventory of finished goods into revenue from operations during the year. Cipla Limited maintained its inventory Turnover Ratio 3.75:1, which was lowest compare to other samples companies.
- Cipla Limited maintained its Receivable Turnover Ratio 4.86 times which indicate that Company turns over 4.86 times its receivables into cash during the year. On the other hands Aurobino Pharma Limited maintained its Receivable Turnover Ratio only 2.91 times means Aurobindo Pharma Limited turnover only 2.91 times its receivables into cash during the year.
- Cipla Limited maintained its Payable Turnover Ratio 3.82 times which indicate that Cipla Limited paid its creditors 3.82 times during the year. Company paid its creditors in 3 months (12/3.82). On other hands Dr. Reddy’s Laboratories Limited maintained its Payable Turnover Ratio 2.78 times during the year. Company paid its creditors in 4.3 months (12/2.78).

Efficiency Analysis of Mid Capitalization companies

- Aarti Drugs Limited maintained its Assets Turnover Ratio 1.09:1, which was highest, compare to other Mid Capitalization samples study. Aarti Drugs Limited has successfully utilized the fixed Assets to generate its Sales. On other hands Claris Life Limited Proved itself inefficient to utilized the fixed Assets to generate sale. Sun Parma Limited’s Assets Turnover Ratio was 0.47:1 which was lowest compare to other samples study.
- Novartis India Limited maintained its Inventory Turnover Ratio 10.59:1, which indicates that Company converts 10.59 times its inventory of finished goods into revenue from operations during the year. Hikal Limited maintained its inventory Turnover Ratio 3.05:1, which was lowest compare to other samples companies.
- Novartis India Limited maintained its Receivable Turnover Ratio 12.22 times which indicate that Company turns over 12.22 times its receivables into cash during the year. On the other hands Marksans Pharma Limited maintained its Receivable Turnover Ratio only 2.76 times means Marksans Pharma Limited turnover only 2.76 times its receivables into cash during the year.

- (d) Aarti Drugs Limited maintained its Payable Turnover Ratio 4.83 times which indicate that Cipla Limited paid its creditors 4.83 times during the year. Company paid its creditors within 2.5 months (12/4.83). On other hands Claris Life Limited maintained its Payable Turnover Ratio 2.88 times during the year. Company paid its creditors in 4.17 months (12/2.88).

Efficiency Analysis of Small Capitalization companies

- (a) Mangalam Drugs & Organics Limited maintained its Assets Turnover Ratio 1.28:1, which was highest, compare to other small Capitalization samples study.

Mangalam Drugs & Organics Limited has successfully utilized the fixed Assets to generate its Sales. On other hands Brooks Laboratories Limited Proved itself inefficient to utilized the fixed Assets to generate sale. Brooks Laboratories Limited's Assets Turnover Ratio was 0.78:1 which was lowest compare to other samples study.

- (b) Brooks Laboratories Limited maintained its Inventory Turnover Ratio 12.41:1, which indicates that Company converts 12.41 times its inventory of finished goods into revenue from operations during the year. Themis Medicare Limited maintained its inventory Turnover Ratio 4.19:1, which was lowest compare to other samples companies.

- (c) Mangalam Drugs & Organics Limited maintained its Receivable Turnover Ratio 6.68 times which indicate that Company turns over 6.68 times its receivables into cash during the year. On the other hands Lincoln Pharma Limited maintained its Receivable Turnover Ratio only 3.52 times means Lincoln Pharma Limited turnover only 3.52 times its receivables into cash during the year.

- (d) Mangalam Drugs & Organics Limited maintained its Payable Turnover Ratio 6.1 times which indicate that Mangalam Drugs & Organics Limited paid its creditors 6.1 times during the year. Company paid its creditors within 2 months (12/6.1). On other hands Claris Life Limited maintained its Themis Medicare Ratio 1.64 times during the year. Company paid its creditors in 7.3 months (12/1.64).

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