CHAPTER 6
FINDINGS AND SUGGESTIONS

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A. Liquidity Ratios

1. Current Ratio: Current ratio of a firm measures its short term solvency and reflects ability to meet short term obligations. An average current ratio of each the selected pharmaceutical companies were higher than the standard norm 2:1 during the period understudy. Only the average current ratio of Biocon was a 1.57:1 times which is lower than standard norm 2:1. Average current ratio of the selected pharmaceutical companies was higher than the standard which means that their ability to meet short term obligations was very good. The result of ANOVA indicates that there was no significant difference between current ratio of all the selected companies.

2. Quick Ratio: Quick ratio is considered to be superior to current ratio in evaluating the liquidity position of a firm. A quick ratio of 1:1 is considered to be a satisfactory ratio. On an average the quick ratio of all the selected pharmaceutical companies were highest, except CHL than standard norm 1:1 during the period understudy. This proves that the liquidity position of all the companies, except CHL was strong for all the years covered by the study. The result of ANOVA indicates that there was no significant difference between quick ratio of all the selected companies.

3. Absolute Liquid Ratio: This ratio helps in evaluating firm’s ability to meet its short term liabilities immediately. The standard norm for this ratio is 0.5:1. Looking to the average absolute liquid ratio of all the selected pharmaceutical companies, it can be said that some of them have achieved the ratio and some are not as per the standard. The highest average absolute liquid ratio was 3.44 times of GSK and lowest was 0.04 times of Biocon. Thus, CHL, Ranbaxy and Biocon were not able to maintain the standard norms during the period of study. While Aventis, GSK and Sun Pharma successfully did it in all the years. This supports the fact that the performance of GSK was much better than all companies. The result of ANOVA indicates that there was no significant difference between absolute liquid ratio of all the selected companies.
B. Activity Ratios

1. Debtors Turnover Ratio: The result of ANOVA indicates that there was no significant difference between debtors turnover ratio of all the selected companies. It is interpreted that the debtors turnover ratio on an average of GSK was 33.85 times highest among the selected pharmaceutical companies. Thus, GSK was much more efficient than all other companies in managing credit sales during the period under study.

2. Average Collection Period: Average collection period of Biocon was much higher than the average collection period of all the selected pharmaceutical companies. The average ratio of Biocon was highest 102.90 days and lowest average ratio was 11.09 days of GSK. For Biocon, it can be said that the payment of debtors was slightly earlier than others companies. The result of ANOVA indicates that there was no significant difference between average collection period of all the selected companies.

3. Total Assets Turnover Ratio: The result of ANOVA indicates that there was no significant difference between total assets turnover ratio of all the selected companies. Company wise average uppermost total assets turnover ratio was 1.49 times for Aventis, which outlines that Aventis by means of its assets utilization was most efficient while Sun Pharma have 0.46 times lower total assets turnover among selected companies throughout the study. It can be said that Aventis was much efficient than all companies in utilizing total assets to generate sales.

4. Fixed Assets Turnover Ratio: This ratio measures the efficiency of the company with which it utilizes its investment in fixed assets to generate sales. The highest average of fixed assets turnover ratio was 10.38 times of GSK and lowest 1.45 times of Biocon. Lower average ratio for Biocon shows that the utilization of fixed assets was not as efficient because the made excessive company investment in fixed asset. As this ratio is very important for a manufacturing concern. Hence, Biocon should take steps to improve it. The result of ANOVA indicates that there was no significant difference between fixed assets turnover ratio of all the selected companies.
5. Working Capital Turnover Ratio: The result of ANOVA indicates that there was no significant difference between working capital turnover ratio of all the selected companies. It is clearly seen that the average ratio of working capital turnover ratio of Biocon was 6.37 times highest than that of the rest selected pharmaceutical companies. It means that the short term financial position of Biocon was much better than all other companies.

6. Capital Turnover Ratio: Inter firm comparison of capital turnover ratio suggests that there was a major difference between the ratio of all the selected pharmaceutical companies. The highest capital turnover ratio was 1.18 times of Aventis and lowest 0.42 times of Sun Pharma. The result of ANOVA indicates that there was no significant difference between capital turnover ratio of all the selected companies.

C. Profitability Ratios

1. Gross Profit Ratio: The result of ANOVA indicates that there was no significant difference between gross profit ratio of all the selected companies. The average gross profit ratio of GSK was 36.66% highest than the rest selected pharmaceutical companies.

2. Net Profit Ratio: Net profit ratio is the indicator of overall profitability and efficiency of a firm. It is found that average net profit ratio of Sun Pharma was 42.53% highest than that of the rest selected pharmaceutical companies because the Sun Pharma has highest average debtors turnover ratio. This indicates that the overall profitability and efficiency of Sun Pharma better than rest of selected companies. For all companies (except Sun Pharma), it can be said that the return to the owners are not adequate. The result of ANOVA indicates that there was no significant difference between net profit ratio of all the selected companies.

3. Operating Expenses Ratio: The result of ANOVA indicates that there was no significant difference between operating expenses ratio of all the selected companies. It has been highlighted that the average operating expenses ratio of Biocon was 87.33% highest than that of the rest selected pharmaceutical
companies due to long operating cycle and lowest debtors turnover ratio than rest selected pharmaceutical companies which leads the carrying cost, storage cost for the inventory. Therefore, the operating expenses ratio was higher for Biocon.

4. **Return on Capital Employed:** The average return on capital employed of GSK has a very broad gap amongst the further selected companies. The result of indices show that the performance of GSK is much better than rest of the companies in utilizing its capital employed to generate profit. The higher average ratio was 45.77% of GSK and lowest was 8.39% of Ranbaxy. The result of ANOVA indicates that there is no significant difference between return on capital employed of all the selected companies.

5. **Return on Total Assets:** When the profitability is measured in relation to return on total assets, the results seem to be good for Sun Pharma in the sense that the resources of the company are being utilized in a profitable manner. The highest average rate of return on total asset was 17.15% of Sun Pharma and lower was 4.63% of Ranbaxy. The result of ANOVA indicates that there was no significant difference between return on total assets of all the selected companies.

6. **Return on Shareholders’ Investment:** The Ranbaxy had 9.23% lowest average return on shareholders’ investment and GSK was 35.63% top in return on shareholders’ investment during the period of study. The result of ANOVA indicates that there was no significant difference between return on shareholder’s investment of all the selected companies.

7. **Earnings Per Share (EPS):** It is found that on an average, the EPS of Aventis was ₹ 76.65 highest than that of the rest selected pharmaceutical companies and lowest was Ranbaxy ₹ 8.27. This comparison points toward a noticeable ability of Aventis to earn a handsome return on each share. The result of ANOVA indicates that there was no significant difference between earnings per share of all the selected companies.

8. **Dividend Per Share (DPS):** It is interpreted that the dividend per share on an average of GSK was ₹ 38.67 highest and lowest was Biocon ₹ 3.17 than that of
the other selected pharmaceutical companies. There was a wide gap between these two. The result of ANOVA indicates that there was no significant difference between dividend per share of all the selected companies.

D. Leverage Ratios

1. Debt-Equity Ratio: The debt-equity ratio shows long term solvency of a company. Ranbaxy shows highest debt-equity ratio was 1.38 times while Aventis and GSK represent lowest debt-equity was nil among selected companies. This make known that Ranbaxy has higher proportion of debt over its equity while Aventis and GSK have lower proportion of debt over its equity among the selected pharmaceutical companies under the period of study. The result of ANOVA indicates that there was no significant difference between debt-equity ratio of all the selected companies.

2. Proprietary Ratio: This ratio highlights the general financial strength of the company. It is clearly seen that on an average, the proprietary ratio of Sun Pharma was 1.40 times highest than that of the rest selected pharmaceutical companies. The higher ratio for Sun Pharma reveals the fact that the proportion of the shareholders fund in total assets used in the business is high and the position of the creditors is more secure. The proprietary ratio of GSK was lowest 0.28 times and the average ratio was much lower than the satisfactory level of 0.50 times. The result of ANOVA indicates that there was no significant difference between proprietary ratio of all the selected companies.

3. Fixed Assets Ratio: The fixed assets ratio was more than one during the period of study, which means that the part of long-term capital was always available for working capital, as the part of working capital is permanently blocked in stock, debtors, etc. Comparison of average fixed asset ratio reveals that the ratio for GSK was higher than all the selected pharmaceutical companies. The result of ANOVA indicates that there was no significant difference between fixed assets ratio of all the selected companies.
6.2 SUGGESTIONS

1. Liquidity position of CHL, Ranbaxy and Biocon was not good because the average absolute liquid ratio of upper listed all three companies was lower than the standard. Moreover current ratio, quick ratio and absolute liquid ratio were showing a declining trend during the study period. So management should take steps to improve it by maintaining proper balance of absolute liquid assets and liquid liabilities.

2. Biocon should review its credit policy and thereby try to shorten average collection period.

3. Profitability position of Ranbaxy was not as good as the rest of selected companies because both gross profit ratio and net profit ratio were lower than the rest of the companies. So Ranbaxy should increase both gross profit and net profit by increasing sales or by taking various steps to reduce costs.

4. Ranbaxy should increase earnings per share and also distribute more dividends to attract more and more investors.

5. The debt-equity ratio of Ranbaxy was very high. It should reduce its debt content in the capital structure to reduce financial risk in order to avoid insolvency.

6. For a manufacturing unit, it is advisable to maintain high assets turnover ratio and improve it accordingly. Though there is no any standard but inter-firm comparison reveals that Biocon had lower fixed assets turnover. So, Biocon should increase its fixed assets turnover ratio.

7. All ratios of GSK were good. Even though the current ratio, quick ratio and absolute liquid ratio were as per the standard, the company’s liquidity position was not satisfactory because these ratios show fluctuating trend in throughout the study period. So the company should increase these ratios.

8. GSK’s good relationship with employees and dealers was a great strength of the company, but to capture more market share and surpass the competitors, the company should introduce new incentive schemes in monetary as well as non-monetary terms for employees and dealers to maintain its position as a market leader.

9. GSK should increase the debt content in its capital structure. It helps to magnify the return on equity funds by ‘Trading on Equity’.
10. The average operating expenses ratio of Biocon was comparatively higher than rest of selected companies. So Biocon should reduce cost of raw materials, manufacturing expenses and other operating expenses so as to improve its operating efficiency.

11. As current assets of selected companies were increasing, so all the selected companies should control on cash balance because cash is non-earning assets and increasing cost of funds.