CHAPTER - VIII

Findings, Conclusion & Recommendations
The Indian Pharmaceutical industry has achieved global position in pharmaceutical sector and has been phenomenally growing in recent years. It is well known that India is emerging as a world leader in generic pharmaceuticals production, supplying 20% of the global market for generic medicines. The Indian pharmaceuticals market is third largest in terms of volume and thirteen largest in terms of value. 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. The industry constitutes for 8% of global production, and exporting to over 200 countries. Indian pharmaceutical industry has been playing a pivotal role in supply of affordable and quality pharmaceuticals to the developed and developing countries. Industry is estimated to grow at 20% compound annual growth rate over the next five years. India is among the top twenty pharmaceutical exporting countries and the exports have grown very significantly at a compound annual growth rate of around 19% in the 11th plan period. The industry has seen tremendous progress in terms of infrastructure development, technology base and the wide range of products manufactured.

In the present study, the total numbers of 4 public limited Pharmaceutical Industries of India have been selected. All these Industries are listed with stock exchange and all the Industries are more than 28 years old. Following is the age-wise status of the factories.

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Name</th>
<th>Period</th>
<th>Age</th>
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</thead>
<tbody>
<tr>
<td>1)</td>
<td>Glenmark Pharma Ltd.</td>
<td>1979 To 2014</td>
<td>35</td>
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<tr>
<td>2)</td>
<td>Cipla Ltd.</td>
<td>1935 To 2014</td>
<td>79</td>
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<tr>
<td>3)</td>
<td>Cadila Healthcare Ltd.</td>
<td>1951 to 2014</td>
<td>53</td>
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<tr>
<td>4)</td>
<td>Aurobindo Ltd.</td>
<td>1986 To 2014</td>
<td>28</td>
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The main problem faced by the Pharmaceutical industries during the period of study i.e. from 2008 to 2014 was effect of new product patent, price control on drugs, Regulatory reformation, Development in infrastructure, conforming the Global standard, high development cost, expensive research and development practices etc. Also the pharmaceutical faces some of the most prominent performance related issues like Quality and number of medical representatives, Doctors giving less time to calls due to their busy schedule,

2) Conclusions:

The Researcher has collected information and data by considering the objectives of research which are mainly reflected in concern chapter. They are Research Methodology, Review of Literature, Role of Pharmaceutical companies in Human Life, Various Pharmaceutical companies in India and its functioning, Analysis and interpretation of financial statements, Profile of Glenmark Pharmaceutical Ltd., Analysis and interpretation of financial statements of Glenmark Pharmaceutical Ltd and Findings, conclusions and Recommendations. The researcher focused on financial aspects of Glenmark Pharmaceutical Ltd, Cipla Ltd, Candila Healthcare Ltd and Aurobindo Ltd. The Chapterwise findings and conclusions are as under

a) Chapter I Research Methodology – Deals with the research methodology containing Introduction, Need of study, Objectives, Hypothesis, Scope, Limitations, Methodology etc. By this chapter the researcher through light on significance of research on this topic.

b) Chapter II Review of Literature - The chapter covers full literature review with respect to the finance and financial management across the globe.

c) Chapter III Role of Pharmaceutical companies in Human Life - In this chapter researcher has covered Components of Pharma Sector, Organizational Structure, Global Scenario with respect to Market force, Cost drivers, Government Regulations, Competition and Indian Pharma
Scenario. Also cover the effort required to develop medicines to save human life.

d) Chapter IV Various Pharmaceutical companies in India and its functioning - This chapter throws light on Pharmaceutical companies in India. In this chapter researcher focused on historical background of pharmaceutical industries and present status of pharmaceutical companies in India.

e) Chapter V Analysis and interpretation of financial statements - This chapter gives brief coverage on financial statements analysis, financial efficiency and productivity management concept of efficiency and performance, financial condition of Global pharma and Indian pharma sector.

f) Chapter VI Profile of Glenmark Pharmaceutical Ltd – The profile of Glenmark Pharmaceutical company clearly indicates that the role of this company is very important and products of this company is helping to strength the health of Indians.

g) Chapter VII - Analysis and interpretation of financial statements of Glenmark Pharmaceutical Ltd and Findings – The finance is called as a blood of the industry. No company shall be established and strength without finance. Financial analysis is to be considered as a broad concept and mainly focus on analysis of trading accounts, Profit and Loss account, Profit and Loss adjustment account and Balance sheet. Various criterias and parameters are used for analysis and interpretation of financial statements. The researcher detailed analysis and interpretation of financial statements for period 2008 to 2014 as below:

**Cost**

In the published financial statements, companies separate details relating to the cost of production of the different product/dosage forms have not been given and merely details of various expenses incurred on all the products are
shown. As such, due to product/dosage form differentiation and different products/dosage form made by different industries and changing the product makes from year to year, it is not possible to calculate product-wise cost of each unit. The only alternative left is to study the head-wise expenditure.

**Raw Material**

Raw material is very important factor in the total cost of production. It is the most flexible and controllable input. It contributes 55-60% cost in the total production. Therefore, while controlling the total cost one has to concentrate on the raw material cost.

It is observed that the raw material cost of Glenmark Pharmaceutical Ltd and Cadila Healthcare Ltd. was low amongst other sample unit Cipla Ltd and Aurobindo Ltd. Its average cost of raw material was registered around 59.36% and 58.76% during the period.

Aurobindo Ltd. recorded highest raw material cost amongst the four Industries. Its average cost was 69.38% during the study period. Cipla Ltd. recorded the average raw material cost of 68.09%. The industry average cost was 63.90%. In short Glenmark Ltd and Cadila Healthcare Ltd raw material cost was less than industry average but Cipla Ltd and Aurobindo Ltd raw material cost was higher than industry average.

**Labour Cost**

Labour cost is a second major element in the total cost of production. It varies according to the rate of production. Labour cost is the most sensitive element in the industries.

Glenmark Ltd has recorded the highest labour cost amongst the sample Industry. It has recorded the average cost of 26.44% in the study period. Aurobindo Ltd. has recorded lowest labour cost amongst sample industries. It has recorded average labour cost of 12.81% during the study period. Cadila Healthcare Ltd recorded their labour cost more than industry average. The
industry average labour cost was 18.95% during the period. Cipla Ltd labour cost was second lowest compared to average cost i.e. 14.99% for the period.

**Manufacturing Expenses**

Manufacturing cost is the third important element in total cost. It includes the cost such as power, fuel, oil, spares and repairs of machinery etc. This cost is a controllable cost, it is directly related to production. The normal percentage of this cost to total cost comes nearly to 10% to 15%. Aurobindo Ltd registered second highest manufacturing expense average i.e. 12.56%. Cadila Healthcare Ltd has recorded highest average cost of 14.54%. The lowest average expenses booked by the Glenmark Ltd were 8.10% during the period. The industry average was 11.65% for the period. Cipla Ltd recorded the average manufacturing cost of 11.41.

**Depreciation**

Forth element is the depreciation of cost. Depreciation means diminution in the value of fixed assets, due to use of machine and lapse of time. In periodical uses, values of assets reduce up to some extent. The reduction in value of assets is called depreciation. The industrial average of depreciation was calculated as 5.50%.

The lowest depreciation recorded by Cadila Healthcare Ltd was 5.12% and highest was 6.10% by Glenmark Ltd. In case of Cipla Ltd and Aurobindo Ltd depreciation was 5.51% and 5.26% respectively.

**Profitability**

**Sales Turnover**

Profitability of any concern depends upon the turnover of the firm. The earnings of the business concern are affected to a great extent by the trend of its sales. While analysing profitability of Pharmaceutical industries we have seen the turnover of each industry over a period of time. Glenmark Ltd sale was in continuous increasing trend upto 279.87%. It increased from 100 to 279.87%
during the period. The firm earned the profit throughout the period. Cipla Ltd sale was increasing trend up to 192.95% during the period. Cadila Healthcare Ltd and Aurobindo Ltd sale was also in increasing trend up to 248.95% and 255.70% respectively.

Cost of goods sold

The average cost of goods sold by Glenmark Ltd was 58.22% during the period. The Aurobindo Ltd registered highest cost of good sold i.e. 77.59% during the period. Cadila Healthcare Ltd and Cipla Ltd cost of good sold was 61.29% and 64.48% respectively.

Gross Profit

Aurobindo Ltd recorded highest gross profit of 366.75% and Cipla recorded lowest gross profit of 171.37% during the period. Rest of the companies recorded the gross profit as follows–Glenmark Ltd 224.68%, Cadila Healthcare Ltd 196.74%.

Interest Cost

Interest is the major cost element in the profit and loss account. Many industries are loosing their profit due to the increasing burden of interest cost. Glenmark Ltd interest cost has shown decreasing trend. Its average cost recorded was 4.70%. Cipla Ltd interest cost showed a fluctuating trend, the highest cost was 1.43% in 2013-14 and average cost was 0.71% and recorded lowest interest cost amongst the sample industries. CadilaHealthcare Ltd recorded average interest cost 2.38%. Aurobindo Ltd recorded fluctuating interest cost throughout the study period and recorded average cost 3.43%.

Net Profit

Every company is interested in knowing the profit or revenue every year. The shareholder, customers, creditors, employees and government authorities are always interested in knowing the earnings of the company.

Glenmark registered the net profit during the period in increasing trend. In 2009-10, profit was 171.1% and in 2013-14 it was 282.01%. In the year 2013-14
it decreased by 40%. Cipla’s net profit was 140.41% in 2008-2009, very next year it went down up to 125.44%. Net profit trend analysis for Cipla showing fluctuation. Cadila Healthcare’s net profit during the period is in an increasing trend. The net profit in year 2009-10 is 169.85% and it is 268.53% in 2013-14. Aurobindo registered fluctuating profitability trend during the period of study. In the year 2011-12 registered loss. But in 2013-14 Aurobindo registered highest net profit. Industrial average profitability from 2008-09 to 2013-14 was in increasing trend except in year 2011-12 where it decreased.

**Return on Capital (ROC)**

Return on Capital was positive in Glenmark Ltd 14.17%, Cipla Ltd 19.89%, Cadila Healthcare 22.57% and Aurobindo Ltd 12.32%. The industry average was 17.24 during the study period.

**Dividend**

All the pharmaceutical industries were consistent in paying the dividend throughout the period from 2008-09 to 2013-14. Glenmark Ltd minimum dividend paid was 40% and maximum was 200%. Cipla Ltd paid almost 100% dividend every year except 2010-11 in which interim 40% additional dividend paid. The average dividend paid was 107% for study period. Cadila Ltd minimum percentage of paid dividend was 90% and maximum paid dividend was 180%. Aurobindo minimum percentage of paid dividend was 100% and maximum paid dividend was 300%.

**Financial Strength**

Financial Strength of the firm depends upon its assets & liabilities i.e. equity capital, reserve & surplus, net worth, investment in fixed capital, current assets, current liabilities and working capital. The relationship of each item with other items proves strength and weakness of the firm. Following ratios proved strengths and weakness of engineering industries during the study period.

1) Debt Equity Ratio.

2) Fixed Assets To Net Worth Ratio.
3) Current Ratio And
4) Quick Ratio.

**Debt Equity Ratio.**

Glenmark Ltd ratio of depth to equity recorded was maximum at 102.95% in the year 2010-11 and minimum at 10.25%, forming the variation of 92.70%. The average depth equity ratio registered was 1.15 during the period. In the year 2011 depth recorded was more than Net Worth and the ratio was 1.66. The Cipla Ltd of depth equity was maximum at 3.50% in the year 2013-14 and minimum at 0.01% in the year 2009-10. The average depth equity ratio was 0.11 during the period. Cadila Healthcare Ltd depth equity ratio was maximum at 1.06 in the year 2008-09 and minimum at 0.47 in the year 2010-11. The ratio variation was 0.56. The average depth equity ratio was 0.76 during the period. Aurobindo Ltd depth equity ratio was maximum at 1.88 and minimum at 0.97%. The ratio variation was 0.91. The average depth equity was 1.24 during the period. Industrial Debt Equity ratio maximum was at 1.12 in the year 2008-09 and minimum at 0.66 in the year 2009-10. The average Debt Equity Ratio was 0.81.

**Fixed Assets To Net Worth Ratio.**

Glenmark Ltd fixed assets recorded was maximum at 56.15% in the year 2011-12 and minimum at 42.18% in the year 2009-10, forming the range of 13.98%. The average fixed assets was 49.85%. The average Net Worth was 50.69% during the period. The ratio of fixed assets Net Worth was maximum at 108.59% in 2010-11 and minimum at 75.89% in 2009-10. The ratio increased from throughout the study period except 2010-11. Cipla’s Ltd fixed asset to Net Worth Ratio recorded was maximum at 64.61% in the year 2013-14 and minimum at 33.93% in the year 2009-10. The average ratio was 45.44% for the period. The ratio was in fluctuating throughout the study period. Cadila Healthcare fixed assets to Net Worth Ratio was maximum at 129.11% in the year 2008-09 and minimum at 84.39% in the year 2010-11. The average ratio was 103.16% for the period. Aurobindo fixed assets to Net Worth Ratio was
maximum at 123.46% in the year 2012-13 and minimum at 46.72% in the year 2010-11. The average fixed assets to Net Worth Ratio was 90.46% during the period. The ratio of industrial average was maximum at 86.64% in the year 2008-09 and minimum at 68.03% in the year 2010-11. The ratio average was 77.54% during the period.

**Working Capital**

Glenmark Ltd working capital percentage to total sources recorded was maximum at 50.57% in the year 2013-14 and minimum at 42.30% in the year 2008-09. The working capital ratio established was in increasing trend during the study period. The average working capital recorded was 45.17% during the period. Cipla Ltd working capital percentage to total assets registered was maximum at 53.97% in the year 2008-09 and minimum at 32.52% in the year 2013-14. The average working capital recorded was 42.18% during the period. The ratios established in decreasing trend throughout the study period. Cadila Healthcare Ltd working capital percentage to total assets registered was maximum at 32.56% in the year 2012-13 and minimum at 25.60% in the year 2009-10. The average working capital recorded was 28.86% during the period. The ratios established in fluctuating trend throughout the study period. Aurobindo Ltd working capital percentage to total assets registered was maximum at 63.41% in the year 2012-13 and minimum at 33.82% in the year 2010-11. The average working capital recorded was 47.71% during the period. The ratios established in fluctuating trend throughout the study period.

**Quick Ratio.**

Generally quick ratio maintained by the companies should be 1:1. In study all the sample Industry have maintained quick assets more than one over a period of time. It means they were able to pay off their liabilities in time. The average Quick Ration of industries during study period was Glenmark Ltd 1.95, Cipla Ltd 1.75, Cadila Healthcare Ltd 1.15, Aurobindo Ltd 1.90 and average industry 1.69.
Highlights of firm While going through the company’s sales, profitability, investment in fixed assets, working capital, equity capital and earning per share; study showed that all the pharmaceutical industries was most stable industries and did well. It paid very attractive dividend to their share-holders.

Raw material cost of Cipla Ltd and Aurobindo were higher than industrial average. Other Glenmark Ltd and Cadila Health care raw material cost was within the range.

The labour cost of Glenmark Ltd was at higher side, i.e. 26.44% during the study period. Labour cost of Pharmaceutical Industries recorded very high because the Industry hired high talent as well as require skilled manpower in every section like Research and Development, Supply Chain, Quality, Operations, Marketing, Regulatory affairs etc. So the fixed cost burden was more.

Manufacturing cost of Cadila Healthcare Ltd was high. Other units manufacturing expenses were as per the industrial norms over a period of time. Profitability of all the industries in study Glenmark Ltd, Cipla Ltd, Cadila Healthcare Ltd and Aurobindo Ltd was good throughout the period. Cadila recorded highest profitability during the period.

Pharmaceutical Industry was suffered by the interest cost throughout the period due to excess in borrowing. The Pharmaceutical Industries made the repayment of loan and reduced the interest burden. During the study period all the companies reduced the interest cost except the Aurobindo. Therefore, Glenmark Ltd, Cipla Ltd, Cadila Healthcare Ltd and Aurobindo Ltd recorded the profit after interest and tax payment.

Long Term and Short-term financial position of all the Pharmaceutical industry of the study was sound during the period.

Dividend and earning per share —

Cadila Healthcare Ltd and Aurobindowas a number one company during the period. The highest paid dividend from 90% to 180% and 100% to 300% by
Cadila Healthcare Ltd and Aurobindo Ltd respectively. Its earning per share was 34.22 and 34.74 per share respectively over a period of time. Cipla Ltd paid dividend 100% throughout the study period and earning per share was 14.44 which was lowest amongst all other companies of study. Glenmark paid dividend from 40% to 200% and earning per share was 16.20. Last three year of study period Glenmark Ltd paid dividend of 200% and earning per share is around 20.

3) Problems:

The main problem faced by the Pharmaceutical industries during the period of study i.e. from 2008 to 2014 was effect of new product patent, price control on drugs, Regulatory reformation, Development in infrastructure, conforming the Global standard, high development cost, expensive research and development practices etc. Also the pharmaceutical companies faces some of the most prominent performance related issues like Quality and number of medical representatives, Doctors giving less time to calls due to their busy schedule.

4) Testing of Hypothesis

Hypothesis is a most important instrument in research. It suggests new functions and idea.

H₀: Pharmaceutical companies in India are facing various problems relating to maintain their books of accounting. In the published financial statements, companies separate details relating to the cost of production of the different product/dosage forms have not been given and merely details of various expenses incurred on all the products are shown. As such, due to product/dosage form differentiation and different products/dosage form made by different industries and changing the product makes from year to year, it is not possible to calculate product-wise cost of each unit. Likewise, researcher has made the statement that companies are facing problems relating to maintain their books of accounting.
**H$_1$:** International accounting standards and Indian accounting standards are not correlated to each other so that pharmaceutical companies are confused about the application of accounting standards for analysis and interpretation of their financial statement because of their multinational functioning. Glenmark Pharmaceutical Ltd has been prepared their financial information for FY2011 onwards under International Financial Reporting Standards (IFRS), whereas prior years financial information have been prepared under Indian Generally Accepted Accounting Principles (I-GAAP), accordingly FY 2011-14 information is not strictly comparable with prior years information.

**H$_2$:** Glenmark Pharmaceutical has maintained its financial statements by following rules and regulation. The Glenmark Pharmaceutical Ltd. has been registered under Indian Company Act 1956. The central government recently passed and implemented new company act 2013 w.e.f. 1$^{st}$ Apr.2013. Financial statements comply with accounting standard notified under subsection (3C) of section 211 of the companies act 1956 and companies act 2013 under section 133. It is clearly observed that Glenmark Pharmaceutical has been following the above rules and regulation and maintain accounting statement as per the said provision. It is also observed that the company paid income tax as per provision of income tax. So with the help of this information the researcher confidently made statement that the company is maintained its financial statements by following rules and regulation.

5) **Recommendations:**

1) Effective costing system must be implemented:

   The present financial accounting system provides only formal status and income/ expenditure accounts of the company. It is unable to give exact cost of Raw Material, Labour, Manufacturing Expenses and Recovery of Fixed Cost. To control the cost we have to find out the controllable and uncontrollable expenses. So the management can take corrective actions in time.
2) To have operating expenses standardization:

Pharmaceutical industries operating expenses are higher than the standard norms. It should be controlled by comparing standard norms. For fixing the standard norms, government should form a separate committee.

3) To have non-operating expenses standardization:

Non-operating expenses like interest and bank charges are the most causal factors for incurring heavy losses in Pharmaceutical industries. Pharmaceutical industry has taken loan and sometime slow repayment of loan and interest. Therefore standard norms to be fixed-up for sanctioning loan, repayment of loan, rate of interest etc. The standard norms should be fixed up by the government.

4) To adopt a common depreciation cost system:

It is observed that different companies have adopted different methods for charging depreciation. Therefore, there is a need to adopt a common method for charging the depreciation. There is also a need for creating a depreciation reserve fund separately and it should be used for replacing the assets only. There should be some standard norms for revaluation of assets and adjustment of depreciation.

5) Need to have orientation and regular training of employee:

The success of the firm depends upon the competence and calibre of the officers who are working at all level. The Pharmaceutical industry incurred losses over a period of time because of untrained labour, inadequate qualifications and non-availability of experts. Therefore, training and orientation programs should be conducted regularly.

6) Need of Foreign participation for growth and financial restructuring:

Pharmaceutical Industry needed to have a more joint venture with foreign parties. The foreign investment should be utilised for repayment of third parties debts and to increase the capital investment. By inviting the foreign capital Pharmaceutical industry can reduce their debt liability and interest cost burden.
can be avoided. By inviting foreign investment, financial strength can be improved.

7) Effective utilization of resources to control cost:

   If the firm utilizes its capacity completely then fixed cost can be recovered fully and resources like man, material, machine and money can be utilized effectively. Operating and non-operating cost can be reduced automatically. But care should be taken that while utilizing maximum capacity, fixed cost should not be increased and it must remain same.

8) Need to have a strategy to improve exports:

   The Pharmaceutical companies are good in export but still in view of open economic policy and globalization, exports should be encouraged and obtain the maximum export benefits. To improve export orders Company can take assistance from foreign agencies. This will not only help the Company to generate more profit but it will also generate foreign currencies for our Government. Thus Company can expect better attention from Governing Authorities in future and can enjoy special benefits from concerning authorities in terms of relaxation in taxes etc.

**Concluding Remarks:**

The researcher has collected information and data by considering the objectives. The researcher focused on financial statements of Glenmark Pharmaceuticals Ltd, Cipla Ltd, Cadila Healthcare Ltd and Aurbindo Ltd with a special focus on Glenmark Pharmaceutical Ltd. The finance is called as a “blood” of the industry. No company shall be established and strength without finance. Financial analysis is to be considered as a broad concept and mainly focus on analysis of trading accounts, Profit and Loss account, Profit and Loss adjustment account and Balance sheet. On studying these statements, it was observed that the Pharmaceutical companies in India are growing at very high
speed i.e. more than 20% year on year and also the profit to sale was between 15-20%.

Earning per share was in increasing order as throughout the study period for all the companies. Overall Pharmaceutical industries in India are stable, growing with good profit margins even though the strong competition and the global pharmaceutical scenario remain dynamic and challenging.

On the other hand, the world economy continued to experience subdued growth. Under performance in the globle economy observed across all the regions and major economic groups. Most developed economies continued struggling in an uphill battle against the lingering effects of the financial crisis, grappling in particular with the challenges of taking appropriate fiscal and monetary policy actions. A number of emerging economies, which had already experienced a notable slowdown in the past two years, encountered new headwinds during 2013 on both international and domestic fronts. On the positive side, Europe witnessed greater financial stability and there were signs of revival in a number of its constituent nations, led by Germany and UK. The US too saw better employment numbers and an improvement in its growth prospects which prompted its leaders to consider withdrawing the easy money policies that bolstered the economy. Worldwide recession risk declined to its lowest level in three years, and the upturn in global trade and manufacturing has reinforced the upswing. The pharmaceutical industry is facing the ‘Innovation Challenge’ characterized by the drastic decrease in productivity in its R&D and marketing of new molecules. The decrease in innovation capacity of Big Pharmaceutical companies threatens their short and long term economic performance. Also witnessed the continuous shift of share of healthcare spends from treatment of disease to prevention and diagnosis. Further the disease burden shift towards chronic diseases is rapidly happening.