Chapter - 5

Summary, Findings and Suggestions
Chapter 5

Summary, Findings and Suggestions

5.1 Introduction

The last topic of any research is the Summary, Findings and Suggestions. In this research work the researcher has made the analysis of the various ratios for the various pharmaceutical companies in India. The researcher has covered various ratios such as Debt-Equity Ratio, Asset Turnover Ratio, Capital Gearing Ratio, Interest Service Coverage Ratio, Return on Capital Employed (ROCE), Return on Equity Shareholders Fund, Earning per Share, Fixed Asset to Shareholders Fund Ratio and Fixed Assets to Long Term Capital Ratio. These ratios are analyse for the pharmaceutical companies like Sun Pharma Ltd., Alembic Pharma Ltd., Dishman Pharma Ltd., Cadila Pharma Ltd. and Torrent Pharma Ltd. The researcher has performed the statistical analysis on these ratios through ANOVA. On the basis of the analysis the researcher has summarized various details and he has come to various findings and he has given some suggestions for the improvement.

5.2 Summary

Chapter- 1: Introduction of Pharmaceutical Industry

This chapter is based on introduction of different pharmaceutical companies whose base if Gujarat. Introduction of pharmacy and its history is discussed. History of different pharmaceutical industries, their export profile, foreign participant, their research and development, patents, product development,
role of government for this area, today’s position of pharmaceutical companies, their challenges, regularity environment for industries, their structure, evolution of pharmaceutical companies and comparison with other state company are discussed. Researcher has also try to compare size of Indian pharmaceutical company, growth pharmaceutical R & D of with foreign countries’ company for the year 1980 to 2000. Biotechnology statistics is also discuss of 15 companies. Researcher has also try to discuss different comparisons through different types of graphs and tables.

**Chapter-2 Conceptual Framework of Capital Structure**

This chapter consist conceptual framework of capital structure. Researchers has try to discuss about capital, debt, equity, mobilizes fund, cash flow and capital structure. He has also try to explain relation sheep between financial leverage and valuation, Factor determining capital structure, like income, risk, control, flexibility, timing and regulatory norms. More over significance of capital structure decisions of different vies like, management point, investors’ point, money lenders’ point, point of view amd society’s point of view.

**Chapter-3 Research Methodology**

Gujarat is a strong pharmaceutical manufacturing hub having a large number of small and medium manufacturing units. Its rich base of supply of active pharmaceutical ingredients has attracted several multinational players such as Wyeth, Sanofi-Aventis and Abbott to set up facilities in Gujarat. There are several pharma clusters around Ahmedabad, Baroda,
and Vapi. Over 300 large projects in the sector have already been commissioned; while over 100 are under implementation.

The firm’s mix of debt and equity financing is called the capital structure.

What should be the proportion of equity and debt in the capital structure of a pharma firm? How much financial leverage should a pharma firm employ? This is a challenging task and an attempt to answer questions like this; one should have an understanding of the relationship between financial leverage and cost of capital or the other way financial leverage and firm valuation. Here in this research, researcher is going to try to find model capital structure which would suit the pharma industry with an attempt to maximize shareholder’s wealth.

This chapter includes problem identification review of existing literature. Title of the problem, importance of the study, objective of the study, period of the study, sample selection, data collection and data analysis, tools and technique, hypothesis of the study in the research, ANOVA-F Test, and Ratios have been used for analysis. F-Test has been applied to test validity of two hypothesis. For a more clear understanding of data all ratio have been calculated for the purpose of study.

**Chapter-4 Analysis Capital Structure Ratios**

Ratio analysis becomes meaningful to judge the financial condition and profitability. Performance of a firm can be measured with comparison of past and present data and comparison of two firms can be done and measured with the help of ratios. First a comparison of present ratio with
past and expected figure ratios for the same firm, the second method of comparison involves comparing the ratio of the firm with those of similar firms of with industry average at the same point of time.

In the current research liquidity ratios, productivity ratios, profebility ratios, activities ratios and financial structure ratio have been used for analysis.

In the current research liquidity ratios, productivity ratios, profebility ratios, activities ratios and financial structure ratio have been used for analysis.

The liquidity ratios show the liquidity position of a firm. The productivity ratio shows output to input and input to output ratio. Probability ratios show profit making ability of an enterprise. Activity ratios show how efficient the firm is in managing its resources and financial ratios highlight the management policies regarding trading on equity. Total 9 ratios have been used in the research by the researchers. The researcher has studied 5 pharmaceuticals companies having base in Gujarat.

The researcher has used ANOVA-F Test for the research. Faith certain limitations of ratios the researcher have tried to find suggestions on the basis of ratios mentioned.
Following table summarizes the performance of the Pharma Companies.

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the Company</th>
<th>Sun Pharma Ltd.</th>
<th>Alembic Pharma Ltd.</th>
<th>Dishman Pharma Ltd.</th>
<th>Cadila Pharma Ltd.</th>
<th>Torrant Pharma Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Debt-Equity Ratio</td>
<td>Satisfactory (0.4564)</td>
<td>Unsatisfactory (0.925)</td>
<td>Satisfactory (0.994)</td>
<td>Satisfactory (0.558)</td>
<td>Satisfactory (0.60)</td>
</tr>
<tr>
<td>(2)</td>
<td>Asset Turnover Ratio</td>
<td>Unsatisfactory (0.447)</td>
<td>Satisfactory (1.054)</td>
<td>Unsatisfactory (0.4857)</td>
<td>Satisfactory (0.8485)</td>
<td>Satisfactory (1.3271)</td>
</tr>
<tr>
<td>(3)</td>
<td>Capital Gearing Ratio</td>
<td>Satisfactory (0.4588)</td>
<td>Satisfactory (0.9238)</td>
<td>Satisfactory (0.9938)</td>
<td>Satisfactory (0.5575)</td>
<td>Unsatisfactory 2.075</td>
</tr>
<tr>
<td>(4)</td>
<td>Interest Service Coverage Ratio</td>
<td>Satisfactory (690.3163)</td>
<td>Satisfactory (559.1641)</td>
<td>Unsatisfactory (8.695)</td>
<td>Unsatisfactory (12.195)</td>
<td>Unsatisfactory (44.6503)</td>
</tr>
<tr>
<td>(6)</td>
<td>Return on Equity Shareholder’s Fund</td>
<td>Satisfactory (29.6)</td>
<td>Unsatisfactory (15.393)</td>
<td>Unsatisfactory (20.194)</td>
<td>Satisfactory (31.515)</td>
<td>Satisfactory (22.681)</td>
</tr>
<tr>
<td>(7)</td>
<td>Earning per Share</td>
<td>Satisfactory (29.6)</td>
<td>Unsatisfactory (6.654)</td>
<td>Unsatisfactory (10.906)</td>
<td>Satisfactory (20.999)</td>
<td>Satisfactory (20.351)</td>
</tr>
<tr>
<td>(8)</td>
<td>Fixed Assets to Shareholder’s Fund ratio</td>
<td>Unsatisfactory (26.82)</td>
<td>Satisfactory (113.95)</td>
<td>Satisfactory (107.52)</td>
<td>Satisfactory (90.62)</td>
<td>Unsatisfactory (80.67)</td>
</tr>
<tr>
<td>(9)</td>
<td>Fixed Assets to Long Term Capital Ratio</td>
<td>Unsatisfactory (18.20)</td>
<td>Satisfactory (56.79)</td>
<td>Satisfactory (52.58)</td>
<td>Satisfactory (57.78)</td>
<td>Satisfactory (52.54)</td>
</tr>
</tbody>
</table>
5.3 Findings

From the calculation of the various ratios for the different Pharmaceutical Companies in India, the researcher has made the ANOVA test on the ratios. The test has clarified certain aspects of the companies in the Pharmaceutical Industry. On the basis of the research, the researcher has made the following findings.

5.3.1 In case of the Debt-Equity Ratio, the average ratio of the industry is 0.70668. This ratio is not satisfactory for the industry. This ratio is satisfactory in Sun Pharma Ltd., Cadila Pharma Ltd. and Torrent Pharma Ltd. their ratio is respectively 0.4564, 0.558 and 0.60. it means that these companies used Debt fund less than Equity. This ratio is unsatisfactory in Alembic Pharma Ltd. and Dishman Pharma Ltd. Their ratio is 0.925 and 0.994 respectively. These companies use more debt fund than equity. Because of this, the company cannot pay more dividends to the Equity Shareholders.

5.3.2 In case of Asset – Turnover ratio, the industry’s average ratio is 0.8325. Alembic Pharma Ltd., Cadila Pharma Ltd. and Torrent Pharma Ltd. have satisfactory ratios. Their ratios are 1.054, 0.8485 and 1.3271 respectively. Sun Pharma Ltd. and Dishman Pharma Ltd. have unsatisfactory ratios. Their ratios are 0.447 and 0.4857 respectively. This suggests that Sun Pharma Ltd. and Dishman Pharma Ltd. are not able to use their total assets efficiently to generate more sales.

5.3.3 In case of Capital Gearing Ratio, all the companies except Torrent Pharma Ltd. have satisfactory ratios. Torrent Pharma Ltd. has 2.075 of
this ratio. It means that the most of the income of the company is used for the preference share dividend and debenture interest and the Equity shareholders do not get stable dividend. All the other companies of the sample have satisfactory ratios. Their ratios are Sun Pharma Ltd. (0.4588), Alembic Pharma Ltd. (0.9238), Dishman Pharma Ltd. (0.9938) and Cadila Pharma Ltd. (0.5575)

5.3.4 In case of Interest Service Coverage Ratio, higher ratio is desirable from the creditors’ view point, because the higher ratio shows that the company is able to pay the interest to the creditors even in the worse situations. This ratio is satisfactory only for Sun Pharma Ltd. and Alembic Pharma Ltd. Their ratios are 690.3163 and 559.1641. This ratio is unsatisfactory for Dishman Pharma Ltd., Cadila Pharma Ltd. and Torrent Pharma Ltd. Their ratios are 8.695, 12.195 and 44.6503. This means that these companies are not able to provide interest to the creditors.

5.3.5 In case of Return on Capital Employed, the higher the ratio, the better the situation. This ratio is satisfactory for Sun Pharma Ltd., Cadila Pharma Ltd. and Torrent Pharma Ltd. Their ratios are 19.156, 19.093 and 19.79 respectively. It is unsatisfactory for Alembic Pharma Ltd. and Dishman Pharma Ltd. their ratios are 14.221 and 10.683 respectively. These two companies do not have good return on capital employed.

5.3.6 In case of Return on Equity Shareholders Fund, the ratio should be higher. The higher ratio suggests that the company is able to give more return to its equity shareholders. This ratio is satisfactory for Sun Pharma Ltd., Cadila Pharma Ltd. and Torrent Pharma Ltd. Their ratios are 24.736, 31.515 and 22.681 respectively. This ratio is unsatisfactory for Alembic
Pharma Ltd. and Dishman Pharma Ltd. Their ratios are 15.393 and 20.194 respectively.

5.3.7 In case of Earning per Share of the selected units, the higher the ratio, the better the situation is. This ratio is satisfactory for Sun Pharma Ltd. Cadila Pharma Ltd. and Torrent Pharma Ltd. Their ratios are 29.6, 20.999 and 20.351 respectively. This ratio is unsatisfactory for Alembic Pharma Ltd. and Dishman Pharma Ltd. It is 6.654 and 10.906 respectively.

5.3.8 In case of Fixed Assets to Shareholders Fund Ratio of the selected units, the higher the ratio, the better the situation is. This ratio is satisfactory for Alembic Pharma Ltd. Dishman Pharma Ltd. and Cadila Pharma Ltd. Their ratios are 113.95, 107.52 and 90.62 respectively. This ratio is unsatisfactory for Sun Pharma Ltd. and Torrent Pharma Ltd. It is 26.82 and 80.67 respectively.

5.3.9 In case of Fixed Assets to Long Term Capital Ratio of the selected units, the higher the ratio, the better the situation is. This ratio is satisfactory for Alembic Pharma Ltd. Dishman Pharma Ltd., Cadila Pharma Ltd. and Torrent Pharma Ltd. Their ratios are 56.79, 52.58, 57.78 and 52.54 respectively. This ratio is unsatisfactory for Sun Pharma Ltd. It is 18.20.

5.4 Suggestions:

On the basis of the analysis of the data and the research made there on, the above mentioned findings are made. On the basis of the findings, the researcher has given following suggestions.
5.4.1 Suggestions to Sun Pharma Ltd.:

In this company, the Asset Turnover Ratio, Fixed Assets to Shareholders Fund Ratio and Fixed assets to Long Term Capital Ratio are unsatisfactory.

The company’s Asset Turnover Ratio is 0.447, which means that the company is not able to use its asset efficiently to generate the sales. So, the company should try to improve this ratio by utilizing its assets fully.

The company’s Fixed Assets to Shareholders Fund Ratio is 26.82 only. This is quite unsatisfactory as compared to the industry ratio. This means that the fixed assets of the company are not contributing much to the shareholders funds. The company should try to improve this ratio.

The company, Fixed Assets to long term Capital Ratio is also very low. It is 18.20 only. This is also very unsatisfactory. The company should try to improve this ratio.

5.4.2 Suggestions to Alembic Pharma Ltd.:

In this company, the Debt Equity Ratio, Return on Capital Employed, Return on Equity shareholders Fund and Earning per Share ratios are unsatisfactory.

The company’s Debt Equity Ratio is 0.925. It means that the company is using more debt fund than equity. So the company is not able to pay
the enough dividends to the equity shareholders. So the company should try to reduce its dependence on debt fund.

The company’s Return on Capital employed is 14.221. It means that the company can pay less return to the capital. The company should try to improve this ratio to improve its profitability.

The company’s Return on Equity Shareholders Fund is 15.393. This means that the company is able to pay very less return to the equity shareholders. This is because of the company’s over reliance on the debt fund. The company should try to reduce the use of debt fund.

The company’s Earning per Share is 6.654. This means that the company is able to pay very less return to the equity share holders. The company should try to improve this ratio.

The company’s Capital Gearing Ratio is good but it is still less than 1 i.e. 0.9238. This is not very good. So the company needs to improve this ratio also.

5.4.3 Suggestions to Dishman Pharma Ltd.:

In this company, the Debt Equity Ratio, Asset Turnover Ratio, Interest Service Coverage Ratio, Return on Capital Employed, Return on Equity Shareholders Fund and Earning Per Share are all unsatisfactory.

The company’s Debt Equity Ratio is only 0.994. It means that the company is using more debt fund than equity. So the company is
not able to pay the enough dividends to the equity shareholders. So the company should try to reduce its dependence on debt fund.

The company’s Asset Turnover Ratio is 0.4857, which means that the company is not able to use its asset efficiently to generate the sales. So, the company should try to improve this ratio by utilizing its assets fully.

The company’s Interest Service Coverage Ratio is 8.695. It means that the company is not able to pay the interest to the creditors. The company should try to improve this ratio.

The company’s Return on Capital employed is 10.683. It means that the company can pay less return to the capital. The company should try to improve this ratio to improve its profitability.

The company’s Return on Equity Shareholders Fund is 20.194. This means that the company is able to pay very less return to the equity shareholders. This is because of the company’s over reliance on the debt fund. The company should try to reduce the use of debt fund.

The company’s Capital Gearing Ratio is good but it is still less than 1 i.e. 0.9938. This is not very good. So the company needs to improve this ratio also.

The company’s Earning per Share is 10.906. This means that the company is able to pay very less return to the equity share holders. The company should try to improve this ratio.
5.4.4 Suggestions to Cadila Pharma Ltd.

The company’s Interest Service Coverage Ratio is unsatisfactory. This ratio is 12.195. It means that the company is not able to pay the interest to the creditors. The company should try to improve this ratio.

The company’s Debt Equity Ratio (0.558) is good but it is around industry’s average ratio. So, the company needs to improve this ratio by using less debt funds.

The company’s overall performance is better than the other similar company’s in the industry. But the company should try to improve its Interest Service Coverage Ratio.

The company’s Asset Turnover Ratio is good but it is around the industry’s average ratio. So, the company should try to improve this ratio.

5.4.5 Suggestions to Torrent Pharma Ltd.

In this company, Capital Gearing Ratio, Interest Service Coverage Ratio and Fixed Assets to Shareholders Fund Ratio are unsatisfactory.

The company’s Capital Gearing Ratio is 2.075. When this ratio is high, it means that most of the income of the company is spent after the payment to the preference share dividend, debenture’s interest and interest on the loans and hence very less amount
remains for the equity shareholders. The company should try to solve this problem by reducing the reliance on the debt funds.

The company’s Interest Service Coverage Ratio is unsatisfactory. This ratio is 12.195. It means that the company is not able to pay the interest to the creditors. The company should try to improve this ratio.

The company’s Fixed Assets to Shareholders Fund Ratio is 80.67 only. This is quite unsatisfactory as compared to the industry ratio. This means that the fixed assets of the company are not contributing much to the shareholders funds. The company should try to improve this ratio.

The company’s Debt Equity ratio is good but it is around industry’s average ratio. So, the company needs to improve this ratio by using less debt funds.

The company’s Return on Equity Shareholders Fund Ratio (22.681) is good but it is near to industry’s average ratio (22.904). So, it cannot be considered as very good. The company should still try to improve this ratio.

**General Suggestions:**

(1) The companies should try to improve their capital structure by using debt funds less than the owners’ capital.
(2) The companies should use their assets in the most efficient manner so that they can be useful to generate more sales.

(3) The companies need to improve their Return on Capital Employed.

(4) The companies are required to improve their capital structure in such a way that they can pay more dividend to its Equity Shareholders.

(5) The companies should use more Equity shares in their capital structure rather than the preference shares and debentures, so that they can save their income from preference share dividend and debenture interest.

(6) The companies need to use their fixed assets effectively so that share holders fund and long term capital ratios can be improved.

(7) The companies should try to maintain consistency in the return on equity shareholders fund.

(8) The Debt-Equity Ratio of the selected units is very fluctuating during the period of the study. The companies need to maintain balance in this ratio.

(9) The Capital Gearing Ratio of Sun Pharma Ltd., Alembic Pharma Ltd. and Torrent Pharma Ltd. is highly fluctuating. These companies need to create a balance in this ratio.

(10) The Interest Service Coverage Ratio of Sun Pharma Ltd. and Alembic Pharma Ltd. is also highly fluctuating. So these companies should try to create consistency in this ratio.
(11) Return on Capital Employed of Dishman Pharma Ltd. shows decreasing trend. The company should try to improve this ratio.

(12) Return on Equity Shareholders Fund of Alembic Pharma Ltd. shows downward trend in the recent years. The company should try to improve this trend.

(13) Earnings per Share of the Alembic Pharma Ltd. are also decreasing in the recent years. The company needs to correct this trend.

5.5 Conclusion:

Out of all the companies under study, Cadila Pharma Ltd. is the best performer. It has only one unsatisfactory ratio and all other ratios are satisfactory. This company is suggested to improve Interest Service Coverage Ratio.

Sun Pharma Ltd. and Torrent Pharma Ltd. can be considered as good performer. Sun Pharma Ltd. has three unsatisfactory ratios viz. Asset Turn Over Ratio, Fixed Assets to Shareholders Fund Ratio and Fixed Assets to Long Term Capital Ratio. Torrent Pharma Ltd. also has three unsatisfactory ratios viz. Capital Gearing Ratio, Interest Service Coverage Ratio, and Fixed Assets to Shareholders Fund Ratio.

Alembic Pharma Ltd. can be considered as the poor performer, because it has four unsatisfactory ratios viz. Debt-Equity Ratio, Return on Capital Employed, Return on Equity Shareholders Fund and Earning per Share. This company is suggested to improve its performance.
The performance of Dishman Pharma Ltd. is worst. This company has only three ratios viz. Capital Gearing Ratio, Fixed Assets to Shareholders Fund Ratio and Fixed Assets to Long term Capital Ratio are satisfactory. All the other ratios are unsatisfactory.
# Chapter - 5

## Summary, Findings, Suggestions

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