SELECT REVIEW OF LITERATURE AND
METHODOLOGY
2.1 AN OVERVIEW OF LITERATURE

A review of literature helps the researcher to have first hand knowledge about the parallel work done by others. This enables one to fix the title, objectives and methodology. As the present study is concerned with the Financial Performance of Select Pharmaceutical Companies in South India, an attempt has been made here to discuss in brief the earlier studies on Financial Management, so as to gain a greater insight into the subject. As a matter of fact, conceptual discussion of evaluation of Financial Management began to take place decades ago. Since then, many renowned Writers, and Eminent Scholars have perceived and examined from different directions to enrich the subject. To provide the necessary background for the present study some conceptual and research studies on the subject are reviewed the lacuna therein is identified.

Subba Rao (1994), according to his study, the small paper mills in India are surrounded by up teen financial problems. These problems have to be sorted out immediately so that the small paper mills once again can be brought back to the right track. To facilitate the steady progress and prosperity of the small paper mills, their finances should be managed effectively and efficiently. The mills should undertake necessary measures for resurrecting their financial viability. The excessive dependence of the mill on external sources, that too on borrowed funds, is suicidal. The finances of the mills should be re-organised suitably. To accomplish this task either a part of the borrowed funds should be repaid or be converted into equity. The shareholders who invested in the small paper mills have been the worst sufferers for the last on and-half decades. Interval generation of funds is tied up with the profitability performance of the mills. In financing expansion programmes, the mills should use only equity capital, instead of resorting to long-term loans from financial institutions as the existing debts have already been out of proportion. In order to eschew the financing of fixed assets by
short-term funds primarily through equity funds. Small paper mills though in many cases headed by technocrats are not able to afford to hire in house R&D or establish sophisticated equipment in their mills. There is an urgent need to develop a technically feasible and economically viable chemical recovery system for small paper mills to prevent wastage of chemical and to arrest widespread pollution. Fixed assets represent the major investment in small paper industry and it exceeded the current assets investment. The overall profit performance in terms of Return On Investment (ROI) of the small paper industry was totally uncomfortable and it belied the hopes and expectations of all groups of people associated with the industry.

Jeffrey M. Bacidore et al (1997)\textsuperscript{2} stated that Refined Economic Value Added (REVA) provides an analytical framework for evaluating operating performance measures in the context of shareholder value creation. Economic Value Added (EVA) performs quite well in terms of its correlation with shareholder value creation, but REVA is a theoretically superior measure for assessing whether a firm’s operating performance is adequate from the standpoint of compensating the firm’s financiers for the risk to their capital.

Bardia (1998)\textsuperscript{3} in his work on “working capital management of Iron and steel Industry in India”, analyzed Iron and steel industry practices in this segment of financial management. He observed that inventory occupied a major share in the current assets of the Iron and Steel industry. The study of debtors shows that its absolute figure continuously moved to rise. Besides this, he pointed out that the proportion of debtors considered doubtful was much higher in the Iron and Steel industry and he commented that this is due to inefficient management of receivables and a slackness in collection efforts. He also observed that the liquidity position of the industry is poor.
Finally, he concluded that the levels of inventories must be reduced to a reasonable extent and also a strict control over inventories has to be introduced so as to improve liquidity and profitability. He also suggested that industry should centralize the administration of cash funds and establish a standard optimum cash balance.

Sanjib Roy (1998) in his study analyze the financial performance of Indian Tea Industry. This study mainly focused on the performance scenario of tea industry. He mainly focused on three areas. They are (1) The cost of Production (2) Price realization, and (3) Burden of taxation. Cost reduction is a planned and positive approach to reduce expenditure and the unit cost of tea. He suggested that, to reduce cost the company should improve the use of present furnaces as they are outdated. This study reveals that price realization per kg depends upon market forces of demand and supply. He made an attempt to study the financial statement analysis which represents the earning power of an entrepreneur and ratio analysis which can measure managerial efficiencies.

Hyderabad (1999) has undertaken a noteworthy study on working capital leverage management. His paper aims at throwing light on the concept of working capital leverage and its significance, measurement and conditions in an enterprise. Working capital leverage indicates a firm’s responsiveness to its working capital investment policies. He expressed that inadequate and excessive investments in working capital leads to dangers and that optimum investment is always desirable. This study covers 3 Indian private sector firms, Essar steel Limited, Raymond Limited and BPL Limited. The impact of working capital leverage on the ROCE can be analyzed by assuming that the need for working capital increases. He concluded that the objective of the working capital management of any enterprise would be to minimize the working capital requirements. The working capital leverage calculated for the decrease in working capital for all the three companies exceeds the degree of working capital leverage calculated for the increase in working capital.
Chandrasekharan (1999) has undertaken a study and analyzed the financial performance of Indian Sugar Industry. Financial ratios are used to analyze the financial performance of this industry. They are liquidity ratios, turnover ratios, leverage ratios and profitability ratios. Liquidity ratios are used to find the ability of the firm to meet its obligation. Current ratio depicts a relationship between current assets and current liabilities. The higher the current ratio, the greater the solvency of the firm. Turnover ratios are used to measure how efficiently the assets are employed by the firm. Inventory turnover ratio. Average collection period assets turnover ratio is indicator of efficiency of the firm. Financial leverage ratios are used to measure the proportion of debt finance. Debt equity ratio, net worth ratio are used for this purpose. Finally, he concluded that the sugar industry's financial structure is affected by high stocks of finished goods. Average to low coverage ratios occur due to high variability of earnings. Industry's financial performance, except during 1993-94, has been moderate to poor. He also concluded that financial structuring of the industry is unfavourable as there is too much of gearing. He suggested that firms must try to work towards market economy. Firms must also focus on reducing the variability in earnings by focusing on cost of controllables and reducing the same.

Surendar S, Yadav (2001), Jain and Rastogi have undertaken a study and analyzed the working capital management in oil industry in India. Their study covers working capital management of three major oil sector companies, namely, JOCL, HPCL and BPCL. They assume that working capital management is the most important aspect of financial management. In their view, careful attention should be paid to working capital management. The objectives of the present study are to examine and compare the effectiveness of working capital management of oil sector companies and to study the liquidity and management of short term finances of oil sector companies. For the present study a time span of 10 years period i.e. from 1987-88 to 1996-97 is chosen. The ten years period is divided into two distinct phases. To analyze the liquidity position two liquid ratios are used viz., (1) Current ratio, and (2) Quick ratio. Working capital ratios,
current asset turnover ratio, inventory turnover ratios etc., are used to test the efficiency. The study reveals that these companies have, by and large, managed their working capital well. They have to continue doing well and improve upon the present so as to face the ensuing competition from other players including multinationals.

Kantawala, A.S. (2001)⁸ made a sophisticated attempt to study the financial performance of non-banking finance companies in India. The author expressed the view — that the financial system comprises financial institutions, financial instruments and financial markets. The present study attempts to examine the relative financial performance of different groups of NBFCs separately over a period of 10 years from 1985-86 to 1994-95 in terms of profitability, leverage and liquidity. This study has been undertaken to examine whether various ratios differ significantly between different categories of NBFCs. In the present study application of Krushkal Wallies test is made. The study was carried out to find out whether for two different groups the majority of ratios differ significantly or not. It can be concluded that there exists a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of NBFCs.

Kanchan Kumar (2002)⁹ Purohit undertook a study of „financial Management of Urban Local Governments of Bangladesh” with special reference to Dhaka City Corporation (DCC). An attempt is made to highlight the financial management system of the upper level urban local government of Bangladesh. A sound financial management system involves anticipatory, acquiring and allocating the financial resource to achieve the objectives. He explained the financial performances of local bodies in discharging various functions of mobilization of revenues and expenditures. He clearly stated that main elements of urban local government finance are budgeting, accounting, financing, auditing and other controlling measures.
He expressed the view that accounting system of DCC is very much outdated. He suggested that to make the system suitable for catering to the present day needs, modified accrual basis of accounting should be adopted instead of present day cash basis accounting. He also pointed out that analysis of financial pattern of DCC reveals that it is suffering from chronic financial shortage. Finally, he suggested that, to save the DCC from financial crisis urgent measures for the improvement of the budgeting accounting and control systems are required, otherwise DCC will fail to play its role properly.

Muhammad Refiqual Islam (2002) has undertaken the study cash management in public sector paper mills of Bangladesh. The main objective of the study is to minimize unproductive cash balances, investing temporarily cash advantageously. This study covered four large public sector pulp and paper mills, Karnaphuli Paper Mill Limited (KPM), North Bengal Paper Mills (NBPM), Khulna News Print Mills Limited (KNM), and Sylhet Pulp and Paper Mills Limited (SPPM). He expressed the view that no firm should maintain an optimal cash balance, which is neither more nor less. The scope and objectives of the study are (i) To study the adequacy and control of cash, and (ii) to identify the possible factors affecting them. The present study is based on the secondary data and it has been conducted inspite of all those limitations. In the present study an attempt has been made to study the cash management practices in the public sector paper mills of Bangladesh. To ascertain the liquidity and solvency position of a concern, current ratio and quick ratio have been used.

He stated that cash control is necessary for liquidity management of a firm. He concluded that the size of cash balance in all the units has been very small and that fluctuations are very high. He pointed out these firms are unable to have effective control over cash flows. Finally, he suggested that to overcome the above problems, there should be greater emphasis on collection from debtors, excess stores and spares have to be reduced to release the cash.
Siva Ramaprasad (2002)\textsuperscript{11} to study working capital management in paper industry. The study has been carried out in 21 selected paper mills. The samples include 9 large, 5 medium, and 7 small scale paper mills. He stated that working capital forms a major chunk of total capital. Many a business enterprise has not paid adequate attention to this. The present study on the efficiency of working capital reveals a sub-optimum utilization of working capital, the rate of return on current asset was negative the present study observed a poor planning of cash balances.

Finally, the author concluded that financing is another important issue in the management of working capital of a paper mill. Mostly, financing of working capital is met from internal sources. Diversion of working funds for meeting long-term requirements results in negative net working capital. He concluded that there was an urgent necessity for changing the structure of finance of industry.

Manoj Anand (2002)\textsuperscript{12} conducted surveys on corporate finance practices in the areas of capital budgeting, cost of capital, capital structure and the value of firm. His survey indicates the positive and significant relationship between the economic profit and market value of the firm. There is a trend to link management compensation with the economic profit in order to reduce the agency cost. Regarding his survey on capital budgeting depicts that the firms use more than one criterion in their project choice decisions. Off late the discounted cash flows methodology is being widely used. The internal rate of return method is more popular amongst the managers, though net present value method is more consistent with the shareholder wealth maximization objective. The small firms use payback period method quite often. Sensitivity and scenario analysis is being done for project risk analysis. Monte Carlo simulation has not gained momentum due to lack of its appreciation. Large firms are using risk-adjusted discount rates for project risk analysis.
Mohanty (2002)\textsuperscript{13} found that leverage is negatively related with profitability and value of the firm both within an industry as well as within the Indian Economy. It has been found that companies that spend a large sum of money on advertisement and Research and Development expenditure are the least levered.

Iyer and Mukherjee (Working Paper, 2003)\textsuperscript{14} have tried to study the linkage between governance mechanisms and performance measures in industry groups. This study covered seven major industry groups of Indian Manufacturing industry. The study examined the proportion of independent directors on board, ownership proportion by promoters/Board of Directors, leadership structure, MD compensation and their relationship with Economic Value Added and Market Value Added. The results were found to be significant only in the case of Chemical Industry, which suggested that there is a linkage between governance mechanism and performance of that industry. Since the focus of the paper was spread across various industries, sufficient justice couldn’t be done to each of them individually. Hence, the focus of this paper is to study the Indian Chemical Industry in greater detail to assess the impact of ownership structure on financial performance.

Navazish Mirza, and Daniel Danny Simatupang (2004)\textsuperscript{15} conducted a study that aimed at testing the comparative riskiness of banking stocks in three different geographic markets. The theory of finance suggests that the systematic risk is the only relevant risk for which the investor is rewarded. There are many factors that contribute to the systematic risk both at the macro and micro levels. In an international environment the systematic risk becomes more relevant as it also includes country specific factors such as country risk, exchange rate risk etc. The banking sector is like the backbone of the economy of any country and surprisingly the number of banks traded, on organised or over the counter markets, is low. They also face the phenomenon of thin trading due to investors’ low interest in their shares. The analysis was based on
the performance of banking stocks in the stock market. We compared the systematic risk for three regions. South East Asia was hit by one of the worst financial crisis in 1998. This crisis badly affected the economy of the Asian region. The financial sector was the most to suffer. Many banks were liquidated or were taken over by the government as they were unable to sustain the pressure created by the crisis. Some of the banks literally went bankrupt overnight. The failure of central banks to handle the crisis added fuel to the fire.

However, during this era, the banking stocks in EU and the US were performing normally. Hence, we divided the study period into three different periods. The pre crisis era when there was no abnormality, the era of crisis when the South East Asian sector was on fire and the post crisis era when the banking sector started to recover. In the post crisis era the events of September 11 took place making Western markets more risky for investments. Our empirical results, as reported, support our notion of risk profiles of the three regions. We reject our null hypothesis for Asia vs. US and Asia vs. Europe concluding that Asian banking stocks were more risky than those of EU and the US. However, the results for Europe vs. US were not significant. These observations were supported by Kruskal Wallis Chi square and Mann Whitney test at the 5% level of significance. The mean beta estimates for the three periods indicate that banking portfolio of Asian stocks, during the crisis, was thrice as risky as that of the market. Moreover the beta estimate for the US and EU increased significantly in the post crisis period. The possible explanation for this phenomenon could be the events of WTC making investment in the stock market more risky. The less than one beta portfolio in the United States and Western Europe make them a strong candidate for investment.
Larry Davidson, and Gennadiy Greblov (2005) through his study, he found the followings:

i. More investments in Research and Development (R&D) projects leads to diversify companies’ future drugs portfolio and make them much more stable in the long-term.

ii. Due to numerous advancements in science and technology, including those in the health care industry, life expectancy in the developed countries has been steadily growing. As the result, growing proportion of elderly people promises further growth of demand for healthcare products.

iii. The main challenges for drug companies come from four areas. First, they must deal with competition from within and without. Second, they must manage within a world of price controls that dictate a wide range of prices from place to place. Third, companies must be constantly on guard for patent violations and seek legal protection in new and growing global markets. Finally, they must manage their product pipelines so that patent expirations do not leave them without protection for their investment.

iv. Drug portfolio management is one of the most important determinants of long-term prosperity of research-oriented pharmaceutical companies, as the survival and to prosperity of the firm depends on managing drug pipelines – as drugs come off patents they no longer bring in enough revenues and must be replaced quickly by other drugs with durable patents.

The Congressional Budget Office (CBO) (2006) study describes the current state of pharmaceutical Research and Development (R&D), analyzes the forces that influence it, and considers how well markets are working to deliver new drugs. The study reveals that over the past decade, a growing share of the industry’s R&D output has consisted of incremental improvements to existing drugs rather than new molecular entities.
Performance measures that consider only entirely new drugs – such as the number of NME approvals per year – miss that shift and undervalue the industry’s R&D output. Moreover, comparing output per R&D dollar over long spans of time can be misleading because of shifts in the types of drugs being developed. A product’s fixed development costs are not relevant to how it is priced because they are sunk (already incurred and not recoverable) before the product reaches the market. But a company incurs R&D costs in expectation of a product’s likely price, and on average, it must cover those fixed costs if it is to continue to develop new products.

Favato, G, and Roger W. Mills (2007)\textsuperscript{18} says that the policy makers need reliable estimates of direct costs of pharmaceutical R&D, in order to contain health-care costs and at the same time maintain a supportive environment for investment in research.

Their research represents the first application of parametric estimating methods to the pharmaceutical development process in order to estimate the direct costs of clinical trials from non-cost estimators known \textit{a priori}. The derived Cost Estimating Relationship (CER) correlates the effect size (in other words the standardized minimal significant outcome, which is a known \textit{a priori} independent variable) to the minimal sample-size required to confer statistical significance upon the outcome (independent variable). The parametric methodological perspective actually looks at the sample size theory as a linear relationship to pre-determine the cost of research. The possibility to estimate the cost of late stage clinical development with an elevated degree of confidence would definitely improve the quality of stop/go decisions and portfolio evaluation in pharmaceutical R&D. Establishing a relationship between cost and non-cost parameters, the researcher moves away from the classical post-hoc cost-accounting analysis, towards a forward looking estimate of future direct-research costs, derived as a dependent variable from a linear Cost Estimating Relationship (CER).
William Greene, US International Trade Commission (2007), in his report presents an overview of India's pharmaceutical industry, its legal environment consisting the Patent Act, 1970, Drug Price Control Order, 1970 and Patent (Amendment) Act, 2005. It also depicts an overview of India’s pharmaceutical industry and its evolution from almost non-existent to one of the world’s leading suppliers of generic drugs. The Indian pharmaceutical industry was allowed to take off when India met its WTO TRIPS obligations and amended its patent laws with the passage and implementation of the Patents (Amendments) Act 2005. When India re-instituted "product" patents, it effectively ended 36 years of protection for Indian companies and terminated legal reverse engineering or copying of patented foreign pharmaceuticals drugs. To meet the short fall in revenues, many of India's leading pharmaceutical companies turned to foreign acquisitions and exports, especially to the United States. Indian companies benefit from a greater acceptance of generic drugs among the US public, tremendous pressure on healthcare providers to reduce costs, and impending expiration of patents on drugs with annual sales of $50 billion. India’s major pharmaceutical companies are positioning themselves to offer generic versions of these drugs and some have predicted that they will capture at least 30 percent of the US generic replacement market. However, Indian companies face severe price compression in the US for their generic drug market and stiff competition from domestic US generic manufactures and suppliers from other low-cost countries.

Anup Chowdhury, and Md. Muntasir Amin (2007) made a survey on working capital practices by Bangladeshi firms in pharmaceutical industry enlisted in DSE. The survey revealed that a positive correlation had been found in the mathematical model, between current asset management and financial performance of Pharmaceutical firms in Bangladesh. The impact of overall working capital policy on profitability in this industry was proved to be significant and the ratios related to working capital can explain the differences between the firms. In this industry maintaining large volume of Inventory doesn’t reflect inefficient management.
Samilglu, F, and Demigunes K. (2008) conducted that accounts receivables period, inventory period and leverage significantly and negatively affect profitability of a company, while company growth (in sales) significantly and positively. They also concluded that cash conversion cycle, size and fixed financial assets have no statistically significant effects on firm profitability.

Shanmugasundaram, G. (2008) attempts to explain the variations in the capital structure in the pharmaceutical companies between process patent period and the transition period. His study covers a period of 16 years starting from 1988-89 and ending in 2003-04 which is divided into two; Process patent period (1988-89 to 1993-94) Transition period(1994-95 to 2003-04). On the basis of capital structure theories and to see if there is any shift in the capital structure in the same period. The results are broadly consistent with the capital structure theories. The most important explanatory variable for the capital structure pattern is asset type measured by the proportion of fixed assets to total assets. This explanatory variable showed a positive significant relationship with debt equity ratio in domestic pharmaceutical companies, an insignificant relation in the case of multinational companies and a significant relation in the case of the pooled pharmaceutical companies during the transition period consistent with the "static trade off theory". The other important explanatory variables namely profitability measures adjusted to total assets and that adjusted to net sales showed negative relations consistent with the "pecking order theory" in the case of domestic pharmaceutical companies and positive relation consistent with the static trade off theory in the case of MNCs. Growth rate of total assets showed positive relation consistent with the pecking order theory in the case of domestic companies while MNCs showed the reverse but at an insignificant level. MNCs showed a negative relation with risk, consistent with the static trade off theory. Further the comparison of the two pairs of regression models between the process and transition period has shown significant structural shift in the debt ratio of Indian, foreign and pooled companies in India after change of policy, favoring product patent in the place of process patent. This is because pharmaceutical companies started manufacturing high-risk products from 1st January, 1995 compared to the low-risk products previously. This is consistent with static trade off theory.
Bardia, S.C. (2008) stated that companies which earn higher returns than overall cost of capital generate value for their shareholders while those which earn lower return than overall cost of capital are deemed destroyers of shareholders' value. His research paper examines whether the selected companies have been able to create value for their shareholders. To evaluate this, some important traditional performance measures such as Return on Capital Employed, Return on Equity, Earning Per Share and Growth in Earnings Per Share along with a new performance measure called Economic Value Added (EVA) have been used.

Nancy Beneda (2008) says that working capital policy refers to the firm's policies regarding 1) target levels for each category of current operating assets and liabilities, and 2) how current assets will be financed. Generally good working capital policy (i.e., under conditions of certainty) is considered to be one in which holdings of cash, securities, inventories, fixed assets, and accounts payables are minimized. The level of accounts receivables should be used as a means of stimulating sales and other income. He conducted a study to examine the effects of working capital management on firm performance for different levels of growth. The study provides evidence that good working capital management is positively associated with better operating performance. The study further indicates that, overall, high growth firms tend to sacrifice operating performance and report lower operating returns and margins to support growth. High growth firms also exhibit higher levels of risk.

The underlying phenomena is perhaps that many firms which are in a high growth phase tend to have an increased need for cash, securities, inventory, fixed assets, and accounts payable. Increasing the levels of these balance sheet items can place financial stress on the firm, as it is required to provide funding to support the increased levels. As a result of the higher level of assets, operating performance may decrease. It should be noted, as always, high growth does not necessarily equate with high performance. A combination of high growth and negative operating performance can result in disastrous results. The findings of this study suggest that perhaps IPO firms should stay more focused on their operating performance than on maintaining high growth levels.
Chitta Ranjan Sarkar, and Jayanta Kumar Nandi (2009)\textsuperscript{25} used Debt-Equity Ratio, Interest Coverage Ratio, Current Ratio, Working Capital Turnover Ratio, Debtors Turnover Ratio, Inventory Turnover Ratio, Net Profit Ratio, Fixed Assets Turnover Ratio, Return on Capital Employed and Return on Net Worth to Evaluate the Financial Performance of Ranbaxy Laboratories Limited. They concluded that: (i) if the debt equity ratio of the company is low, the capital structure of company is to be equity dominated and as such, the degree of financial risk associated with the owners' equity is moderate. (ii) the higher Interest Coverage Ratio (ICR) indicates the higher efficiency of the company to meet its periodic interest payment on outstanding debt.

Dheenadhayalan, V, and Kandasamy, S. (2009)\textsuperscript{26} concluded that the financial health of any business organization decides its future. Analyzing the financial statements through financial ratios of an organization provides not only a clear picture of the present financial position of the firm, but also all futuristic dimensions of its business. The financial ratios are more useful to the stakeholders, investors and to the entrepreneur. They studied Financial Performance of Steel Authority of India Limited.

2.2 STATEMENT OF THE PROBLEM

The Pharmaceutical industry has been facing special problems like lack of domestic demand, low productivity, high operating cost, greater global and domestic competition, etc. Though the investment in pharmaceutical industry is defensive in nature, it registered a low growth rate in the present global recession. The industry has failed to retain more profits and forced to depend more on external sources. This industry has to invest more funds to pipeline new drugs. This in turn leads to imbalanced capital structure and as a result, the industry is not in a position to meet the current obligations. As India’s population, which is over one billion, is expected to rise to 1.6 billion by 2050, out of which 189 million Indians will be in the age group of
above 60 years. Hence local market creates more demand for pharma market. To meet the growing demand, technology upgradation of existing units and installation of additional capacity are required. There is a need of finance for upgradation and installation. Therefore sound financial management is necessary for the successful working of the pharma units in India. Other important problems of pharmaceutical industry are increasing cost of inputs, lack of technological knowhow, limited maneuverability fixing in the price of finished products. To discharge the complicated duties the financial manager must know the ways and means to solve them.

- How do these problems affect the profitability of the Pharmaceutical industry?
- How do the leverage effect on the profitability?
- What is the systematic risk involved in equity?
- How to improve the performance of fixed asset?
- How the working capital is to be managed?
- How are profits to be increased?

These and other related questions arise in pharmaceutical industry also. The above questions call for a scientific examination in select Pharmaceutical companies in South India. The present study has been a modest attempt in this direction.

2.3 NEED FOR THE PRESENT STUDY

Finance is the life blood of any industrial system. It lubricates, develops and accelerates growth. Without it no business organisation can hope to survive. Mobilisation (acquisition), utilization and distribution of finance is a crucial function and its performance helps the organisation to prosper. Financial management is directly concerned with the overall management of an enterprise and it involves taking policy
decisions related to the line of business, size of the firm, type of equipment used, extent of debt, liquidity etc., which in turn determine the level of owners' (shareholders') wealth. Thus, financial management assumes great significance in any industry to maximise stakeholders' interest.

In India a plethora of human and natural resources are available in plenty but the domestic capital resources are highly restricted, but now-a-days there is a chance to procure the capital world wide and India is the financial profitable destination for the global equity. A thorough understanding of financial management is necessary to utilize the limited, diversified, mobilized capital resources efficiently and effectively. It is difficult to evolve norms for sound and efficient management practices in various organizations without any factual information. Hence, there is a need to study financial management practices in various industries in India. Therefore, the present study is planned to analyse the financial performance of select Pharmaceutical companies in South India.

2.4 OBJECTIVES OF THE STUDY

The study is basically intended to scan the financial performance of select Pharmaceutical Companies in South India by using statistical and financial tools and also to suggest suitable measures for their betterment. The following are the specific objectives of the study:

a. To study the composition of capital and its impact on profitability.

b. To evaluate the systematic risk involved in pharmaceutical industry.

c. To examine the performance of fixed assets.

d. To assess the impact of working capital performance on profitability.

e. To analyse the performance through financial ratios and Market Value Added (MVA) approach.
2.5 HYPO THESES

i. There is no significant difference between the sample Pharmaceutical companies with respect to maintenance of fixed assets.

ii. There is no relationship between net profit ratio and working capital among sample Pharmaceutical companies.

iii. There is no significant difference in the financial ratios among sample Pharmaceutical companies.

2.6 SCOPE AND COVERAGE

The Indian pharmaceutical industry is a highly fragmented one. There are about 250 large Pharmaceutical manufacturers and suppliers and about 8000 Small Scale Pharmaceutical & Drug Units are operating in India. The total listed companies from this sector at Bombay Stock Exchange (BSE) trading platform are 219. From South India 50 pharmaceutical companies has been available for trading at BSE. A 20 per cent sample has been drawn for the present study. Following are the 10 select Pharmaceutical companies in South India:

a. Dr. Reddy's Laboratories Ltd, Hyderabad, Andhra Pradesh.

b. Divi's Laboratories Limited, Hyderabad, Andhra Pradesh.

c. Biocon Limited, Bangalore, Karnataka.


e. Astrazeneca Pharma India Limited, Bangalore, Karnataka.

g. Orchid Chemicals & Pharmaceuticals Limited, Chennai, Tamilnadu.

h. Suven Life Sciences Limited, Hyderabad, Andhra Pradesh.

i. Bal Pharma Limited, Bangalore, Karnataka.


2.7 THE PERIOD OF THE STUDY

The present study covers a period of ten financial years of operation of select Pharmaceutical companies in South India i.e., from 1998-99 to 2007-08.

2.8 DATABASE

The data for the study has been primarily obtained from the annual reports of select Pharmaceutical companies. In order to extract required information a number of unstructured interviews have been conducted with the managements of the sample pharma companies. Data are also drawn from the reports prepared and published by the Indian Drug Manufacturers Association (IDMA), Mumbai; Pharmaceuticals Export Promotion Council (Pharmexcil), Hyderabad; Indian Pharmaceutical Association (IPA) Mumbai; Bulk Drug Manufacturers Association, Hyderabad, etc. Besides these agencies, Departments of the Government of India, namely, Department of Chemicals and Petrochemicals (now Department of Pharmaceutical), National Medicinal Plants Board, Office of Drug Controller General of India, Department of Science & Technology have been referred. The respective companies' websites, the annual survey of Industries by Hindu, the Kothari’s Industrial Director of India etc., were visited. In addition to this, various journals and periodicals on finance and industry have also been referred.
2.9 TOOLS AND TECHNIQUES OF ANALYSIS

The data drawn from the various sources have been analyzed with the help of financial and statistical tools such as financial ratios, averages, correlations, multiple regression, student’s t-test, ANOVA, trend analysis etc. Graphs and diagrams are presented to illuminate the facts and figures.

2.10 LIMITATIONS

The present study is confined to 10 select Pharmaceutical companies in South India, which are purposely chosen, because of proximity to and convenience of the researcher. To match with the meager financial resources and time, the present research is conducted on the basis of time series data only.

2.11 CHAPTER DESIGN

The present study has been organized into eight chapters. The first chapter deals with the prospects and problems of Pharmaceutical industry in India. The review of literature, objectives, data base, tools of analysis, and scope and limitations of the study are presented in second chapter. The third chapter deals with the composition of capital and its impact on profitability. Evaluation of systematic risk of equity securities of select Pharmaceutical companies is depicted in the fourth chapter. The fifth chapter deals with the performance of fixed assets in sample Pharmaceutical companies. The analysis of the impact of working capital performance on profitability is examined in sixth chapter. In the seventh chapter, Pharmaceutical companies are examined through financial ratios and market value added approach. The last chapter summarises the results of the study.
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