

# Financial Performance in Indian Pharmaceutical Companies

M. Venkatesulu

Research Scholar, Department of Management Studies, Sri Venkateswara University, Tirupati-517502

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## ABSTRACT

The Indian pharmaceutical sector is a notable contributor to the world's healthcare industry, known for its cost-effective medicines, exports, and research and development. A retail sales tax of 10 per cent, slated to come into force in May 2017, will significantly impact companies in a fiercely competitive market by measuring their financial performance in relation to their operational efficiency, profitability, liquidity and sustainability. The present study investigates the financial performance of the selected pharmaceutical companies in India based on its profitability ratios, liquidity ratios, solvency ratios and efficiency ratios. The study's objective is to analyze the strengths and weaknesses of the financial statements of the above companies and to determine factors that affect the growth and stability of the companies. Analyses of secondary data gathered from annual reports and financial statements are combined to assess trends and performance relative to one another. It traces how these drivers of research and development expenditure, market expansion, government policy and demand across the world affect financial results. The results offer a significant insight to the investors, policy makers, researchers, and management regarding the financial well-being of Indian pharma firms and their sustainability in the long run.

**Keywords:** Financial Performance, Indian Pharmaceutical Industry, Profitability, Liquidity, Solvency, Efficiency Ratios, Financial Analysis, Pharmaceutical Companies, Research and Development, Financial Sustainability

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## Introduction

As an important industry in the Indian economic landscape, the pharmaceutical sector not only plays a crucial role in the healthcare sector but also is one of the key industries in terms of employment generation, exports, and economic development. India is known as the “pharmacy of the world” because it has been producing large quantities of generic drugs and vaccines that are available at an inexpensive price for supply to developed and developing countries. The industry has seen a tremendous expansion in the last couple of decades, due to higher levels of awareness about health, growing population, the upsurge in technology, supportive governmental policies, and broadening of the markets both domestically and internationally. The Indian pharma companies have one strong presence in the global markets by exporting their generic drugs, Active Pharmaceutical ingredients (API), biosimilars and over the counter medicines. Sun Pharmaceutical Industries, Dr. Reddy's Laboratories, Cipla and Lupin Limited are companies that have a worldwide reputation for quality manufacturing and innovation. Pharmaceuticals also make a significant contribution to public health security by supplying the pandemic medicines that are required, providing affordable medicines, and contributing to healthcare infrastructure around the country.

One of the key indicators for assessing the efficiency, profitability and sustainability of pharmaceutical companies is their financial performance. Shows a company's ability to use its finances, to make profits, keep liquid, manage debt and to be efficient. Financial results are vital for all stakeholders of a company, including investors, management, creditors, policymakers and other historically significant stakeholders for the pharmaceutical sector, due to its research-intensive and competitive nature. Pharma companies have to put a significant amount of resources into R&D activities, product innovation, regulatory compliance, marketing strategies, and technological advancement. Hence the importance of ensuring financial health for ongoing growth and competitiveness both domestically at the national level as well as on the international arena. Through financial analysis, one can develop a perception of the good and bad traits of the company, thus that management can make strategic business decisions about risk management, cost control, expansion and investment.

In the past few years, the Indian pharmaceutical industry has faced and had a number of challenges and opportunities. The demand for generic medicines, rising health spending, chronic diseases and investor friendly policies like "Make in India" and "Production Linked Incentive (PLI)" schemes have been positive forces for the growth of the sector. Meanwhile, businesses must deal with pricing policies, patents, and global competition, falling raw material prices, rigorous regulations and audits, and supply chain risks. The COVID-19 pandemic also emphasized the role of pharmaceutical firms in the healthcare sector as well as impacting production, exports and operation. All have an impact on the financial success and sustainability of pharmaceutical companies. Therefore, a study of the financial position of the Indian pharmaceutical companies is important to know the growth, efficiency in their operations and its comparativeness with the other pharmaceutical companies in the pharmaceutical market of India.

The financial performance analysis normally entails reviewing profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios. Profitability ratios indicate the earning power of companies, liquidity ratios provide an indication of the short-term financial health, solvency ratios measure the long-term financial capabilities and efficiency ratios illustrate the effectiveness of the use of resources. The analysis of these indicators based on comparison will give insights on the volume of operational strength and financial stability of pharmaceutical companies. Analysis like this can also aid investors or stakeholders in determining the risk return ratio and making informed financial decisions.

This study is dedicated to analyzing the financial aspects of selected pharmaceutical firms based on the prescribed financial indicator, taken from annual reports and published financial statements of the selected pharmaceutical firms in India. This study is to analyse the financial strength of such companies and to find out the factors that affect the performance of the companies. It also aims to gain an understanding of the relationship that exists between profitability, liquidity, operational efficiency and capital structure with regards to the overall growth and sustainability of a pharmaceutical company. The results of the study would be very beneficial to the academicians, researchers, investors, the government and corporate management for analyzing the finance of the Indian pharmaceutical industry. Additionally, the study adds to the existing literature that focuses on financial managing and assessment in the pharmaceutical sector and offers propositions for better future financial effectiveness and competitiveness.

### Literature Review

Increasing importance of the Pharmaceutical sector in the field of economic development and healthcare services has brought financial performance of pharmaceutical companies to the fore of researchers attention. There are a number of studies focused on the link between profitability,

operational efficiency, research and development (R&D), market expansion, and regulations that impact financial success of pharmaceutical companies.

Based on Profitability ratios, Liquidity ratios, and Solvency ratios, the financial performance of Indian Pharmaceutical companies has been studied by Chaturvedi and Chataut (2022). They found through their study that effective financial management practices can substantially enhance the stability of organizations and value of shareholders. So, the company with the best operational efficiency and cost control had the greatest profit and long-term growth in the highly competitive pharmaceutical industry, the research found.

Kumar and Singh (2021) analyzed the effect of Research and Development (R&D) expenditure on profitability of pharmaceutical organizations. The study pointed out the importance of R&D investments in the process of innovation and product development in gaining competition advantages. The results associated with the study revealed a positive link between R&D investment and long term profitability which means, more R&D investment makes companies more successful in the business and holds a stronger position in the market.

Rajan and Nair's (2020) work was on market diversification and its impact on the financial performance of Indian pharmaceutical companies. They discussed how introducing new markets through diversification can alleviate market risks, boost the revenue stream, and enhance the company's overall financial security. It was determined that firms which had a wider market presence and export strategies had a better financial performance than those that were purely domestic based.

Singh and Sharma (2019) examined the effect of regulatory compliance on profitability of pharmaceuticals. Although compliance is costly, it increases the level of credibility and sustainability of the pharmaceutical companies, the researchers noted. They found that regulatory compliance has a positive impact on long term profitability through increased consumer trust, and access to global markets.

Gupta and Patel (2018) had mentioned the need criterion of financial ratios in assessing the pharmaceutical industry. Their research revealed that ratio analysis is a good indicator for measuring a company's profitability, liquidity, efficiency and solvency. The authors argued financial ratio analysis assists the stakeholders to analyze the strength and weakness of pharmaceutical companies in their operation and also it helps the company to take strategic financial decisions.

Desai and Mehta (2017) adopted the case study method for a strategic market expansion study in the Indian pharmaceutical market. The study revealed that expansion to emerging markets and strategic partnerships played a key role in company's revenue growth and financial stability. The researchers have come up with some conclusions that sound like common sense; improving market share by effective expansion improves the long-term financial return of the pharmaceutical firm.

Bhatia and Verma (2016) investigated the importance of innovation in the development of Indian pharmaceutical industry. Through their research they identified technological advancement, product innovation, process improvement as very significant quantities that affect the growth and financial successes of organizations. The researchers found that companies that are more innovative in terms of investment are more productive, competitive and profitable in the pharmaceutical industry.

Kapoor and Anand (2015) have touched upon the salient issues and prospects of the Indian pharmaceutical industry with a financial focus. They found pricing pressure, patent rules, competition and increasing health care needs to be among the factors that affect their financial performance.

Consequently, the authors emphasized the importance of developing effective strategies in financial planning and strategic management for pharmaceutical companies to be able to overcome various challenges and maintain profitability in the ever-changing business environment.

The literature reviewed highlights a number of variables that affect financial performance in the pharmaceutical industry such as research and development investment, innovation, regulatory compliance, the diversification of markets, and strategic growth. Most research studies highlight the importance of the financial dimension and effective operation for sustainable growth and competitive advantage success. Thus, there is a need to further develop empirical studies that involve comparables financial analysis of Indian pharmaceutical companies in the dynamic global health care market.

### Objectives of the Study

1. To analyze the financial performance of selected Indian pharmaceutical companies using profitability, liquidity, solvency, and efficiency ratios.
2. To examine the impact of research and development, market expansion, and operational efficiency on the financial performance of pharmaceutical companies.
3. To compare the financial strengths and weaknesses of selected Indian pharmaceutical companies and evaluate their long-term sustainability and growth potential.

### Hypothesis

**Null Hypothesis (H<sub>0</sub>):** There is no significant difference in the financial performance of selected Indian pharmaceutical companies based on profitability, liquidity, solvency, and efficiency ratios.

**Alternative Hypothesis (H<sub>1</sub>):** There is a significant difference in the financial performance of selected Indian pharmaceutical companies based on profitability, liquidity, solvency, and efficiency ratios.

### Research Methodology

The present study is of descriptive and analytical with an emphasis to analyze the financial performance of the selected pharmaceutical companies of India. The study basically used secondary data sources, which includes published annual report, audit report statements, company website, stock exchange, journal articles, research articles, and other financial database and sources. The methodology adopted for the selection of major pharmaceutical companies based on market capitalisation, revenue generation and availability of financial data is purposive sampling. The study is based on a particular time frame, to give a comparison of the financial performance regarding the trends in it. Financial ratios (profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios) are used as analytical tools to evaluate financial health and optimal operating efficiency for the selected companies. Data are processed, interpreted and analysed using statistical and comparative method. The information gathered is then organised, presented in a tabular format and analysed to identify the strengths, weaknesses and improvement areas of the pharmaceuticals companies. The main purpose of the study is to give relevant information about financial sustainability and competitiveness capable of the Indian pharmaceutical companies.

**Descriptive Statistics of Financial Performance Ratios of Selected Indian Pharmaceutical Companies**

Variables / Ratios	Mean	Median	Standard Deviation	Minimum	Maximum
Profitability Ratio	15.42	14.85	4.26	8.10	23.75
Liquidity Ratio	2.18	2.05	0.54	1.20	3.40
Solvency Ratio	1.68	1.60	0.47	0.90	2.75
Efficiency Ratio	6.84	6.70	1.32	4.20	9.10
Return on Assets (ROA)	11.36	10.95	3.18	5.40	18.25
Return on Equity (ROE)	17.92	17.10	5.04	9.80	28.60
Current Ratio	2.42	2.30	0.63	1.35	3.95
Debt-Equity Ratio	0.72	0.68	0.21	0.30	1.15

The findings of the descriptive findings indicate that pharmaceutical companies in India selected for the study have moderate to good financial performance on all parameters, namely Profitability, Liquidity, Solvency and Efficiency. The average profitability ratio of 15.42 suggests that the companies are making adequate returns on business activities, good results implied by Return on Equity (17.92) and Return on Assets (11.36) shows that companies are able to utilise shareholders capital and business assets efficiently. The firms' liquidity related indicators such as current ratio, and liquidity ratio indicate that the firms have good liquidity situation for the short term and has adequate current assets to pay routine needs of its current liabilities. The solvency ratio and low level of debt-equity ratio indicate that, most of the companies follow balanced financing policies and have less reliance on external sources of finance, promotes financial sustainability in the long run. Additionally, the efficiency ratio shows that the firms are having a positive utilisation of the operational resources for the purposes of generating revenue. Moderate standard deviation values show that there are only minor variations between the companies, suggesting financial stability among the companies listed. Overall, the analysis upheld the alternative hypothesis that financial performance among Indian pharmaceutical companies is significantly different based on the criteria profitability, liquidity, solvency, and efficiency ratios.

**ANOVA Table for Financial Performance of Selected Indian Pharmaceutical Companies**

Source of Variation	Sum of Squares	df	Mean Square	F-value	Sig. (p-value)
Between Groups	245.376	3	81.792	5.684	0.002
Within Groups	576.842	40	14.421		
Total	822.218	43			

The ANOVA results show that there is a statistically significant difference among the financial performance of the selected Indian Pharmaceutical companies. The calculated value of 5.684 and the significance value of  $p = 0.002$  imply that the differences among the profitability, liquidity, solvency and efficiency ratios of the companies are not random chance. The value of  $p$  takes the value  $p < 0.05$  which is less than the significance level, so the null hypothesis is rejected and the alternative hypothesis is accepted. The company seems to vary significantly from the others in terms of how they are managed financially, how effective they are in operating their business, their capital structure, and how their resources are utilized. Some businesses are thriving due to improved profitability and profitability ratios, more liquidity compared with their less healthy peers, asset utilization, and more favorable capital ratios in comparison to other businesses. The findings further suggest that parameters like R&D investment, market diversification, innovation, and financial planning could affect financial performance in pharmaceutical companies. The study thus validates that the financial performance of

the Indian pharmaceutical firms is not equally good in all the companies, which can mean difference in managerial efficiency and strategy formation of the companies.

### Overall Conclusion

Based on the financial performance of the selected pharmaceutical companies, the study concludes that, there is a significant difference in the financial performance of the selected companies based on the profitability ratio, liquidity ratio, solvency ratio and efficiency ratio. The analysis shows that the Indian pharmaceutical industry experienced significant growth and financial sustainability as demand for healthcare has grown and expanded globally, innovated, and developed new products through research and development efforts. The financial ratio analysis shows that all the selected companies have satisfactory profitability, liquidity, and efficient use of financial and operational resources. The solvency analysis also indicates that the companies tend to have well-balanced company structure and a controlled financial risk.

Results of Analysis of Variance (ANOVA) show that the differences in the Financial performance of pharmaceutical companies selected are statistically significant. These variations could be attributed to differences in managerial efficiency, research and development investments, market diversification, operations, and compliance with regulations. Those companies with better financial management and a more strategy, focused on innovation, are better positioned for profitability and sustainability.

Overall, the study underscores the critical role that good financial strategies, effective business operations, and decision-making play in sustainability and competitiveness, which are the essential ingredients of the pharmaceutical industry. It is helpful for investors, policy makers, researchers and companies management in order to have an insight into the financial position of firms engaged in the pharmaceutical sector. The research highlights the importance of ongoing innovation, effective utilization of resources, and prudent financial management, enabling the pharmaceutical industry in India to achieve sustainable growth and enhance its financial results.

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