

PROFITABILITY AND DISTRIBUTION PATTERN OF EARNINGS OF SELECT PHARMACEUTICAL COMPANIES IN INDIA

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ABSTRACT

India is the third largest manufacturer of medicines in the world with more number of pharmaceutical companies in India. According to Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, the total turnover of India's pharmaceuticals industry between 2008 and September 2009 was US\$21.04 billion. The Indian pharmaceutical industry traces its roots to 1903 with the formation of Bengal Chemical and Pharmaceutical Works in Calcutta by Professor P. C. Roy. During the first half of the twentieth century despite modest efforts on the part of the colonial government to spur local production, India remained largely dependent on the UK, France, and Germany for medicines. Dividend in the normal use of the word refers to that portion of earnings that is paid to stockholders. It is a reward to the shareholders of joint stock companies for their investment and risk bearing. To analyze the profitability and distribution pattern of earnings three objectives was framed and analyzed by using the statistical tools. The ultimate dividend policy of any company depends on numerous factors, the avoidance of shareholders' discount is important. However, if the firm has only limited access to capital markets, it is likely to adopt low dividend payout ratios. Such firms are likely to rely more heavily on retained earnings as a source of financing their investment.

Keywords: *Dividend, Distribution Pattern, Earnings, Pharmaceutical, Profitability, Shareholders.*

INTRODUCTION

India is the third largest manufacturer of medicines in the world with more number of pharmaceutical companies in India. According to Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, the total turnover of India's pharmaceuticals industry between 2008 and September 2009 was US\$21.04 billion. The growth rate of the industry is 13 per cent per annum. Almost 70 per cent of the domestic demand for bulk drugs is catered by the Indian Pharmaceutical Industry. In terms of turnover the contribution of the Indian Pharmaceutical Industry is less than 2 per cent of the global total and the prices of medicines in India are the lowest in the world.

The pharmaceutical industry in India provides an excellent case study of Indian industry as a whole of inward-looking policies fostering the growth of many similarly inward-looking local firms. However, India's pharmaceutical industries differ from other industries in one key aspect. The Indian Patent Act of 1970 had little impact on most of the Indian industries, but had significantly affected the pharmaceutical sector. In the years since 1970, a large number of firms were formed and the industry was among the most fragmented in the world alongside the leading multinational company (MNC) subsidiaries that were then operating in India. Between 1970 and 1991, private Indian firms increased their share of the Indian drug market from less than 20 per cent to 60 per cent, primarily taking market share from the MNC subsidiaries. A wide range of drugs is now produced in India, and sold at prices (determined through a price control regime) that are among the lowest in the world. Under the 1970 Patent Act, the leading Indian pharmaceutical firms grew by legally reverse-engineering internationally patented drugs.

DIVIDEND POLICY

Dividend in the normal use of the word refers to that portion of earnings that is paid to stockholders. It is a reward to the shareholders of joint stock companies for their investment and risk bearing. It is usually paid in cash out of profits after the depreciation and the tax requirements have been made. In addition to cash dividend, a company may also issue bonus shares to its existing shareholders by means of capitalization of its free reserves. The

amount of dividend paid to the shareholders depends upon the kind of dividend policy being pursued by a company. Dividend policy generally deals with the firm's decision about how much of its earnings to be paid out of its equity shareholders in cash dividends. It is the guiding principle in determining what portion of earnings should be paid out as dividend during the next period. As such dividend policy involves the decision to pay out earnings or to retain them for reinvestment in the firm. In fact, a dividend policy is a decision by a corporate board of directors and the management to follow a predetermined series of actions regarding the payment of dividends to shareholders.

STATEMENT OF THE PROBLEM

The study aims at finding out various issues involves in profitability and distribution pattern of earnings of select pharmaceutical companies in India. It concentrates on the exercise of dividend practices by pharmaceutical companies in India.

At this juncture, the researcher has probed the following questions.

- To what extent the pharmaceutical companies increase their profit and sales?
- Which company's trend has increased in dividend payment pattern among the select pharmaceutical companies?
- What is the dividend distribution pattern of the select pharmaceutical companies?

OBJECTIVES OF THE STUDY

The study has been undertaken with the following objectives.

- To analyze the profitability and dividend performance of the select pharmaceutical companies.
- To study the growth and trend in dividend payment pattern of the select pharmaceutical companies.
- To study the distribution pattern of earnings in the select pharmaceutical companies.

METHODOLOGY

To accomplish the objectives of the study, secondary data were used. The required data for the sample companies were collected from the compilation made by the Centre for Monitoring Indian Economy (CMIE) for the period 2002-2003 to 2011-2012. Profitability and distribution pattern of earnings of selected pharmaceutical companies were analyzed for the period of ten years with the help of the following tools. Pharmaceutical companies were selected for the study on the basis of the following criteria.

- The companies' shares were actively traded in BSE and NSE.
- Complete data available for ten years from 2002 to 2012 and their accounting year starting from 1st April to 31st March.

STUDY RESULT

TABLE: 1,GROWTH RATE OF SELECT PHARMACEUTICAL COMPANIES

(in Percentage)

No.	Company Name	Sales	Operating Profit	Investment	Fixed Assets	Average
1	Bal Pharma	17.64	16.50	0.00	12.81	11.74
2	Samrat Pharma	1.84	-6.05	-18.53	5.20	-4.39
3	Gujarat Terce labs	6.18	18.02	-0.12	12.32	9.10
4	Coral Labs	11.63	11.68	41.91	1.19	16.60
5	Sandu Pharma	26.77	20.17	-56.65	6.15	-0.89

Source : www.Capitaline.com

The above table shows that Coral Labs has the highest average growth rate of 16.60 percent when all the four parameters are taken together. Gujarat Terce Labs has the lowest average with 9.10 percent whereas Samrat

Pharma and Sandu Pharma have negative average growth. Thus, it is inferred that Coral Labs has the highest overall growth rate and Gujarat Terce Labs the lowest overall growth rate in the selected companies.

TABLE: 2. EARNING PER SHARE OF SELECT PHARMACEUTICAL COMPANIES
(in Rs.)

Year	Bal Pharma		Samrat Pharma		Gujarat Terce labs		Coral Labs		Sandu Pharma	
	EPS	Index	EPS	Index	EPS	Index	EPS	Index	EPS	Index
2002-03	2.84	100.0	2.55	100.0	0.32	100.0	0.03	100.0	0.63	100.0
2003-04	2.88	101.4	2.59	101.6	0.06	18.8	0.03	100.0	1.08	171.4
2004-05	2.92	102.8	2.79	109.4	0.06	18.8	0.03	100.0	1.40	222.2
2005-06	2.96	104.2	2.19	85.9	0.03	9.4	0.00	0.0	1.85	293.7
2006-07	3.00	105.6	0.20	7.8	0.06	18.8	0.03	100.0	2.27	360.3
2007-08	3.62	127.5	1.69	66.3	0.01	3.1	0.03	100.0	3.19	506.3
2008-09	6.38	224.6	6.07	238.0	1.81	565.6	0.13	433.3	2.88	457.1
2009-10	9.28	326.8	8.31	325.9	1.39	434.4	0.03	100.0	1.67	265.1
2010-11	9.49	334.2	5.12	200.8	0.61	190.6	0.03	100.0	2.67	423.8
2011-12	14.91	525.0	0.00	0.0	0.97	303.1	0.10	333.3	1.80	285.7
Mean	5.83		3.15		0.53		0.04		1.94	
SD	4.15		2.61		0.65		0.04		0.81	
CV (%)	71.27		82.97		122.22		89.12		41.77	
AGR (%)	21.06		13.50		37.40		9.40		11.69	
't' Value	6.52*		0.90^{NS}		1.78^{NS}		1.44^{NS}		2.64**	

Source : www.Capitaline.com Note : * - Significant at 1% level; ** - Significant at 5% level;

The above table shows earning per share of select pharmaceuticals companies. In terms of mean value among the five selected companies, Bal Pharma has recorded the highest at Rs.5.83 followed by Samrat Pharma at Rs. 3.15 and Coral Labs has recorded the lowest at Rs.0.04. In terms of the co-efficient of variation, Gujarat Terce labs has recorded the highest at 122.22 per cent followed by Coral Labs at 89.12 percent and Sandu Pharma, has registered the lowest at 41.77 per cent. On the other hand, all the companies have registered positive growth rate, which has been analyzed by the Index value. The t-values show that the growth rate is significant in Bal Pharma at 1 per cent and Sandu Pharma at 5 per cent but insignificant in Samrat Pharma, Gujarat Terce labs and Coral labs.

To sum up, among the five firms, Sandu Pharma has shown lesser variation in their EPS during the study period. Further, it is noted that Bal Pharma and Sandu Pharma have maintained its EPS in a good condition with significant growth.

TABLE: 3. DIVIDEND PER SHARE OF SELECT PHARMACEUTICAL COMPANIES

(in Rs.)

Year	Bal Pharma		Samrat Pharma		Gujarat Terce labs		Coral Labs		Sandu Pharma	
	DPS	Index	DPS	Index	DPS	Index	DPS	Index	DPS	Index
2002-03	0.06	100.0	0.00	100.0	0.00	100.0	0.51	100.0	0.36	100.0
2003-04	0.10	166.7	0.00	100.0	0.00	100.0	0.71	139.2	0.43	119.4
2004-05	0.14	233.3	0.00	100.0	0.43	100.0	0.74	145.1	0.00	0.0
2005-06	0.18	300.0	0.20	100.0	0.57	132.6	0.80	156.9	0.00	0.0
2006-07	0.22	366.7	0.20	100.0	0.57	132.6	0.89	174.5	0.00	0.0
2007-08	0.66	1100.0	0.20	100.0	0.69	160.5	0.89	174.5	0.36	100.0
2008-09	0.78	1300.0	0.24	120.0	0.86	200.0	1.07	209.8	0.36	100.0

2009-10	0.89	1483.3	0.30	150.0	0.87	202.3	0.45	88.2	0.54	150.0
2010-11	1.01	1683.3	0.20	100.0	0.78	181.4	0.67	131.4	0.54	150.0
2011-12	1.55	2583.3	0.15	75.0	0.78	181.4	0.76	149.0	0.54	150.0
Mean	0.56		0.15		0.56		0.75		0.31	
SD	0.50		0.11		0.32		0.18		0.23	
CV (%)	89.40		73.55		58.35		24.37		72.92	
AGR (%)	43.88		-0.01		9.14		0.93		3.99	
't' Value	14.02*		0.00		6.52*		0.31 ^{NS}		1.94 ^{NS}	

Source : www.Capitaline.com Note : * - Significant at 1% level; ** - Significant at 5% level;

Table 3 shows dividend per share of selected pharmaceuticals companies. In terms of mean value, among the five selected companies, Coral Labs has shown the highest DPS at Rs. 0.75 followed by Gujarat Terce labs (Rs.0.56) and Bal Pharma (Rs.0.56) and the least value has been observed in Samrat Pharma at Rs.0.15. In the case of coefficient of variation, Coral Labs has been registered the lowest at 24.37 per cent followed by Gujarat Terce labs at 58.35 per cent and Bal Pharma has recorded the highest at 89.40 per cent. On the other hand, all the companies have registered positive growth rate except for Samrat Pharma which analyzed by their Index value. The t-values show significant growth to Bal Pharma and Gujarat Terce labs at 1 percent but insignificant growth in Coral Labs and Sandu Pharma.

To sum up, among the five firms, Coral Labs, Gujarat Terce labs and Sandu Pharma have shown lesser variation in their DPS during the study period. Further, Bal Pharma and Gujarat Terce labs have shown the significant growth.

COMPARATIVE ANALYSIS OF EPS AND DPS

The following table exhibits the comparative analysis of trends in earning per share and dividend per share.

TABLE: 4, TRENDS IN EARNING PER SHARE AND DIVIDEND PER SHARE OF SELECT PHARMACEUTICAL COMPANIES

Year	Bal Pharma		Samrat Pharma		Gujarat Terce labs		Coral Labs		Sandu Pharma	
	EPS	DPS	EPS	DPS	EPS	DPS	EPS	DPS	EPS	DPS
2002-03	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2003-04	101.4	166.7	101.6	100.0	18.8	100.0	100.0	139.2	171.4	119.4
2004-05	102.8	233.3	109.4	100.0	18.8	100.0	100.0	145.1	222.2	0.0
2005-06	104.2	300.0	85.9	100.0	9.4	132.6	0.0	156.9	293.7	0.0
2006-07	105.6	366.7	7.8	100.0	18.8	132.6	100.0	174.5	360.3	0.0
2007-08	127.5	1100.0	66.3	100.0	3.1	160.5	100.0	174.5	506.3	100.0
2008-09	224.6	1300.0	238.0	120.0	565.6	200.0	433.3	209.8	457.1	100.0
2009-10	326.8	1483.3	325.9	150.0	434.4	202.3	100.0	88.2	265.1	150.0
2010-11	334.2	1683.3	200.8	100.0	190.6	181.4	100.0	131.4	423.8	150.0
2011-12	525.0	2583.3	0.0	75.0	303.1	181.4	333.3	149.0	285.7	150.0
CV (%)	71.27	89.40	82.97	73.55	122.22	58.35	89.12	24.37	41.77	72.92
AGR(%)	21.06	43.88	13.50	-0.01	37.40	9.14	9.40	0.93	11.69	3.99
't' Value	6.52*	14.02*	0.90^{NS}	0.00	1.78^{NS}	6.52*	1.44^{NS}	0.31^{NS}	2.64**	1.94^{NS}

Note : * - Significant at 1% level; ** - Significant at 5% level; NS : Not Significant

Out of the five companies, only one company Bal Pharma has projected trends which exhibit more growth in DPS when compared to EPS. Samrat Pharma, Gujarat Terce labs and Coral Labs have shown insignificant growth in its EPS and Coral labs and Sandu pharma have shown an insignificant growth in its dividend. On the other hand, Sandu Pharama has not given any dividend in the years 2004-05, 2005-06 and 2006-07.

TABLE: 5, DIVIDEND PAYOUT RATIO OF SELECT PHARMACEUTICAL COMPANIES
(Rs. in Crores)

No.	Company Name	Mean	SD	CV (%)	AGR (%)	t' Value
1	Bal Pharma	0.085	0.048	56.225	18.850	3.983*
2	Samrat Pharma	0.132	0.308	232.23	0.000	-
3	Gujarat Terce labs	0.263	0.164	62.445	0.000	-
4	Coral Labs	0.168	0.127	75.515	21.619	4.299*
5	Sandu Pharma	0.072	0.063	88.360	-10.050	-1.77 ^{NS}

*Source : www.Capitaline.com Note : * - Significant at 1% level; ** - Significant at 5% level*

Table 5 shows the dividend payout of the selected five pharmaceutical companies for the period 2002-2003 to 2011-2012. During this period of the study, the mean value of the Gujarat Terce labs has accounted the highest at Rs. 0.263 crores followed by Coral Labs at Rs. 0.168 crores and the lowest at Rs. 0.072 crores in Sandu Pharma. The co-efficient of variation reported the highest variation in Samrat Pharma and lowest variation in Bal Pharma during the study period.

The annual growth rate was the highest in Coral Labs at 21.619 percent followed by Bal Pharma at 18.850 percent. Bal Pharma and Coral Labs exhibited significant growth at 1 percent level of significance whereas growth rate was found to be insignificant in Sandu Pharma whereas Samrat Pharma and Gujarat Terce labs exhibited no significant value.

Among the five pharmaceutical companies Coral Labs had recorded the highest growth rate in dividend payout during the study period followed by Bal Pharma; Sandu Pharma has shown a negative growth rate, while no growth rate had been recorded at Samrat Pharma and Gujarat Terce labs.

SUGGESTIONS

- The study suggest the pharmaceutical companies in India to realize the fact that the criteria for success will be cost-competitiveness, distribution strengths, world class manufacturing standards and research capabilities. In order to run a successful research programme and to be able to introduce high-value products in the marketplace, companies require formidable financial strength, which Indian pharma companies in the small-sector mostly lack.
- The financial managers should recognize that a high D/P ratio may result in the dilution of both control and earnings for the existing equity holders. The companies with high D/P ratio are suggested to restrict its heavy dividend distribution margins. By retaining a high percentage of its earnings, the firms can minimise the possibility of dilution of earnings.
- Sample firms must understand the fact that the stability of earnings has a significant bearing on the dividend decision of a firm. The financial manager should remember that dividends have information value, with holding the payment of dividends will raise the required rate of return of the investors and, therefore depress the market price of the shares. The increase on earnings should be that it can offset the unfavourable effect of the increased cost of equity.
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CONCLUSION

The study states that sound financial performance of a pharmaceutical company can be determined by the measure of its dividend payout features. The ultimate dividend policy of any company depends on numerous factors, the avoidance of shareholders' discount is important. If the shareholders become dissatisfied with the existing dividend policy they may sell their share, increasing the possibility that control of the firm will be seized by some outside group. The takeover of a firm by outsiders is more likely when owners are dissatisfied with its dividend policy. It is the financial manager's responsibility to keep in touch with the owner's general attitude towards dividends. Yet another set of factor that can strongly affect dividend policy is the extent to which the firm has access to the capital markets. In case the firm has easy access to the capital market, either because it is financially strong or large size, it can follow a liberal dividend policy. However, if the firm has only limited access to capital markets, it is likely to adopt low dividend payout ratios. Such firms are likely to rely more heavily on retained earnings as a source of financing their investment.

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