



AN EMPIRICAL STUDY ON FUNDAMENTAL ANALYSIS OF PHARMACEUTICAL SECTOR IN INDIA.

¹Dr. Yamuna D., ²Dr. Krishnakumari. S., ³Dr. Dhivya Bharathi S.
^{1,2,3}Assistant Professor, School of Management Studies,
Sathyabama Institute of Science and Technology, Chennai, India.
Email - yamuna.damu@gmail.com

Abstract: Investment analysis is an important aspect for understanding the firm performance which has two main approaches namely technical analysis and financial statement analysis. For an investor these analyses are very much essential to choose the good investments for their expected return coming years in near future. This study is tries to analysis the financial statements of pharmaceutical companies listed in the stock exchanges, for the period of 5 years from 2018 to 2022. The researcher chosen five pharmaceutical companies based on the firm market price. The main classification used to categorize the companies was the type of drugs they make i.e., branded, generic and oncogenic. Financial tools were used for the study to measure the performance of the firm. Based on the analysis, it is found that Glenmark Pharmaceuticals ranked first company followed by Dr. Reddy's which ranked as the second.

Key Words: Pharma Industry, Financial statement analysis, ratio analysis.

1. INTRODUCTION:

The pharmaceuticals industry is one of the core industries in India and is optimistic of posting good sales in the. The Pharmaceutical industry is the third largest in terms of volume in India. Pharmaceutical industries have been topmost players in the health care segment in an epoch of aging populations, rising health care costs, and the ongoing development of new and extremely profitable medicines. The total turnover of India's pharmaceuticals industry between 2018 and 2022 was US\$ 42 billion. Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, The approaches fundamental analysis involves Top-bottom approach (EIC) and Bottom-top approach (CIE). Under top-bottom approach includes Economic, Industry and Company analysis whereas bottom to top approach involves company, Industry and Economic analysis.

The theoretical foundation of fundamental analysis used valuation models to estimate the share performance. (Bernard, 1994; Fischer & Jordan, 1995; Penman, 199; Bauman, 1996; Jones, 2007) Dividend Discount model (DDM), helps to determine expected dividend future cash (Subramanian & Venkatachalam, 2007), Models which depends on Multiples (Faerber 2008), Discounted cash flow method (Copeland, et.al, 1990) and Residual Income Valuation model (RI) (Ohlson, 1995). The literature reviews related to fundamental analysis has been done with sector wise, a very few study were undertaken in Indian pharmaceutical industry (Panigrahi et.al, 2018; kaur, 2022; Muduli 2018; Goel, R., 2019). This study follows the CIE approach to conduct a fundamental analysis of the Five Indian Companies viz. Sun Pharma, ZYDUS, Dr Reddys, Cipla, Glenmark for a period of 5 years from 2018 to 2022. The scope of the study is limited to fundamental analysis of the companies and not considered market sentiments. The technical analysis which helps to understand the price behavior of shares (boobalan, 2014)

2. RESEARCH OBJECTIVES:

- To analyze the financial performance of selected pharma companies by using Ratio Analysis and find out whether they are fundamentally strong.

3. METHODS:

This study focuses on fundamental analysis of selected companies which is descriptive in nature. The fundamental analysis helps to identify the overpriced and underpriced of the securities (Gandhi, 2018). The secondary sources relating to firm profile, products and services are collected from the respective company's annual reports, company websites and trading websites to measure profitability and firm performance (panigarhi, 2018)



The study follows convenience sampling method. Among the companies listed with major stock exchange of India namely, BSE and NSE of India, 5 pharmaceutical companies on the basis of market capitalization are selected. The following are the selected Pharmaceutical companies of this study: Pharma, ZYDUS, Dr Reddys, Cipla, and Glenmark. The study used Ratio Analysis as tool to analysis the financial statements of selected companies for assessing their performance. Dividend per share (DPS), Earning per share (EPS), Price/Earning Ratio (P/E) and Return on Equity (ROE) are the selected Ratios used for the study.

3.1. Dividend per Share (DPS) :

The sum of declared dividends for every ordinary share issued. Dividend Per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

$$\text{Dividend Per share} = \frac{\text{Amount Declared as Dividend}}{\text{Number of equity shares}}$$

3.2. Earning per Share (EPS):

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. This ratio helps assess the profitability of the firm from the equity share holder's point of view.

$$\text{Earning per Share} = \frac{\text{Profit after tax}}{\text{Number of equity shares}}$$

3.3. Price/ Earning ratio (P/E Ratio) :

The price/earning ratio (P/E) is known for firm's valuation indicators. To calculate P/E multiple , uses company Earning per share divide with current stock price.

$$\text{Price / earnings ratio} = \frac{\text{Stock price per share}}{\text{Earnings per share}}$$

3.4. Return on Equity (ROE):

Return on equity (ROE) identifies the company efficiency to generate the profit in the limited resources contributed by the shareholders. ROE calculated by using a company's after-tax income (after preferred stock dividends but before common stock dividends) and dividing by shareholder's equity (Share capital & Reserves & Surplus). Higher the ratio indicates the companies possess growing performance.

4. RESULTS & DISCUSSION:

Table 1. Analysis of Ratios for selected companies:

COMPANY NAME	YEARS	DPS	EPS	P/E Ratio	ROE	Mean	SD
SUNPHARMA	2022	5	4.99	197.7	6.63	30.2	42.4
	2021	4.25	16.39	36.3	25.35		
	2020	3.5	13.36	34.5	20.71		
	2019	13.75	43.39	43.5	16.25		
	2018	13.75	61.09	18.9	24.05		
ZYDUS	2022	15	74.51	24.5	16.25	26.4	18.5
	2021	13.75	53.81	34.1	17.42		
	2020	11.25	52.78	32.1	14.81		
	2019	11.25	50.11	26.5	13.07		
	2018	6.25	33.29	15.2	11.37		
GLENMARK	2022	4	28.16	22.9	26	23.2	16.1
	2021	3.2	18.01	30.3	17.99		
	2020	3	18.15	23.5	25.67		
	2019	13.5	72.96	23	26.74		
	2018	12.5	50.35	14.3	29.6		
DR REDDYS	2022	2	18.77	20.6	16.99	14.3	8.5
	2021	2	14	22.3	14.88		
	2020	2.8	11.96	27.9	14.52		
	2019	2	13.47	25.7	17.57		
	2018	2	9.99	22.8	23.17		



CIPLA	2022	0	-3.84	0	11.39	4.2	23.4
	2021	0	-72.32	0	37.43		
	2020	2	27.28	22.2	14.33		
	2019	0	13.61	38.1	1.84		
	2018	0	-24.85	0	17.4		

From the above table it is found that, the highest performed company among the selected companies is ZYDUS. Based on the Dividend per share (DPS ratio) and Earning per share (EPS) ratio, the ZYDUS possess highest ratio Rs.15 and Rs. 74.5 respectively compared to other pharmaceutical companies in the year 2022. Further, it is found that, P/E ratio value for Sunpharma is extremely high (197.7) which represent high market risk and least earning per share whereas CIPLA possess low P/E ratio. The ZYDUS maintains consistent value in P/E Value followed by Dr. Reddy and Glenmark. The Return on equity of selected companies for the past five years clearly states that in the year 2018, all the companies are really performed well but during 2020, pandemic situation, companies faces severe impact on their share performance, very few companies such as Glenmark and ZYDUS were able to sustain in the market and maintain their ROE consistently.

Based on Mean score, it is found that ZYDUS perform better as compare to their competitors with a mean score of (26.4) followed by Glenmark (23.6), Dr. Reddy (14.3) etc.

Based on standard deviation score (SD), it is found that, Sunpharma and CIPLA possess high deviation as compare to ZYDUS, Glenmark and Dr. Reddys with score of 42.4 and 23.4 respectively.

Table 2. Ranking of selected companies based on different ratios

COMPANY NAME	DPS	EPS	P/E Ratio	ROE	Intrinsic Value	TOTAL
SUN PHARMA	2	4	4	5	4	19
ZYDUS	1	1	1	3	1	7
GLENMARK	3	2	2	1	2	10
Dr. REDDY'S	4	3	3	2	3	15
CIPLA	5	5	5	4	5	24

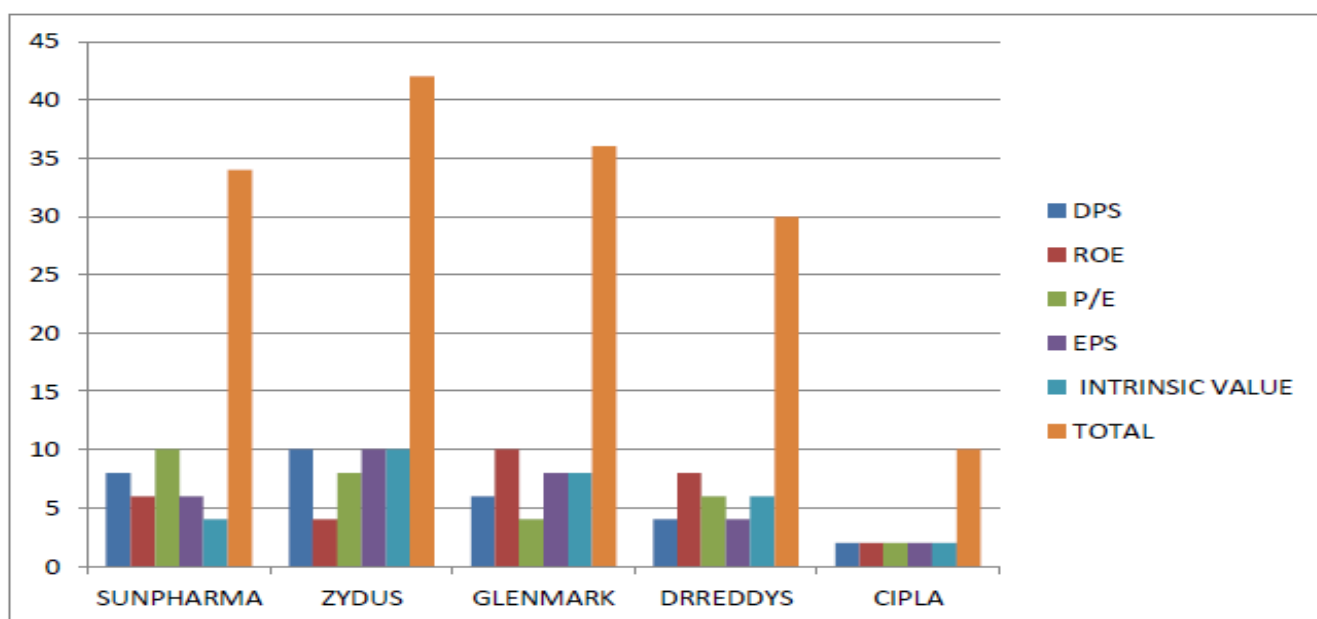


Figure 1: Ranking of selected companies

From the table.2 & fig. 1, it is clearly stated that, ZYDUS, Dr. Reddys and Glenmark are able to sustain in the market during the Pandemic, other companies like CIPLA and Sun Pharma faces inventory impact during COVID.



5. CONCLUSION:

In future years, the Indian Pharma companies will flourish due to international market demand. Currently, an Indian pharmaceutical company focuses in various activities such as contract research & manufacturing, clinical research, R&D pertaining to vaccines which will attract many multinational pharmaceutical companies to outsource these services. Fundamental analysis suggests and insisted that, on the basis of market performance, the investors have to take steps in terms of purchasing, and selling of shares. The fundamental analysis helps the investor to make the right decision on their investments.

REFERENCES:

1. Panigrahi, Ashok and Sharma, Raksha and Dhande, Himani, Fundamental Analysis of Indian Pharmaceutical Companies (June 25, 2018). GLOBAL MANAGEMENT HORIZON Volume – VII, Jan - June 2018, ISSN 2249-6211, Available at SSRN: <https://ssrn.com/abstract=3202129>
2. Muduli, R., & Das, U. (2018). Investment in Pharma Stocks in BSE: A Performance Analysis. *Asian Journal of Management*, 9(1), 351-358.
3. Goel, R. (2019). Empirical Analysis of Pharmaceutical Companies. Available at SSRN 3547201.
4. Anjani, T., & Syarif, A. D. (2019). The Effect of Fundamental Analysis on Stock Returns using Data Panels; Evidence Pharmaceutical Companies listed on IDX. *International Journal of Innovative Science and Research Technology*, 4(7), 500-505.
5. Jain N. K. D. M. R. (2008) TECHNICAL ANALYSIS OF SELECTED PHARMACEUTICAL COMPANIES OF INDIA.
6. Boobalan, C. (2014). Technical analysis in select stocks of Indian companies. *International Journal of Business and Administration Research Review*, 2(4), 26-36.
7. Umaprabha, M., & Malavika, M. (2015). A Study on Technical Analysis of Stocks Listed in NSE With Reference To Pharmaceutical Industries. *ISSN, 976(6502)*, 79-86.