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A FINANCIAL HEALTH CHECK OF INDIAN PHARMACEUTICAL INDUSTRY USING CREDIT POLICY AS AN INDICATOR.

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ABSTRACT

The Indian pharmaceutical industry plays a vital role in the country's economy, and it is crucial to ensure the industry's financial sustainability, growth, and competitiveness. This study aims to evaluate the financial health of the Indian pharmaceutical industry using credit policy as an indicator. The study analyses the company wise trends in debtors turnover ratio and credit policy of selected pharmaceutical companies from 2013-2014 to 2022-2023.

Data analysis results reveal that there is a significant difference among debtors turnover ratios of the pharmaceutical companies in India, with some companies performing better than others in terms of prompt collection from debtors. The study provides valuable insights into the performance of Indian pharmaceutical businesses and highlights the importance of maintaining a healthy credit policy to ensure long-term financial health.

Keywords: Pharma companies, Debtors turnover ratio, credit policy, business.

INTRODUCTION

The Indian pharmaceutical industry has emerged as a significant player in the global market due to its cost-effective manufacturing capabilities and expertise in producing high-quality medicines.

The COVID-19 pandemic created an unprecedented demand for life-saving drugs and vaccines globally. It also brought several challenges to the industry, including supply chain disruptions, workforce shortages, and increased demand for essential drugs and medical supplies. With the rising demand for healthcare services, the pharmaceutical industry plays a vital role in providing affordable, innovative, and effective medicines to the people. The industry's financial health reflects its ability to sustain growth, attract investment, and meet the diverse needs of its stakeholders. Therefore, this study aims to conduct a financial health check of the Indian pharmaceutical industry using credit policy as an Indicator.

NEED FOR THE STUDY

A comprehensive financial health check of the Indian pharmaceutical industry is the need of the hour to ensure the industry's sustainability, competitiveness, and growth.

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It will help policymakers, investors, industry players, and other stakeholders to formulate evidence-based policies and strategies to strengthen the industry's financial health and competitiveness.

OBJECTIVES

- To analyse the trends in credit policy of pharmaceutical companies in India.
- To ascertain Debtors turnover ratio among selected pharmaceutical companies in India.

HYPOTHESIS

- **H1:** Debtors turnover ratio differs significantly among selected Indian Pharmaceutical companies.
- **H0:** Debtors turnover ratio doesnot differ significantly among selected Indian Pharmaceutical companies.

SCOPE OF STUDY

This study aims to assess the financial health of the Indian pharmaceutical industry using the credit policy as an indicator. The main aim of the study is to evaluate the ability of pharma companies to collect payments from its customers. The timeframe of the study will be from 2013-2014 to 2022-2023. The study will measure efficiency with which debtors of Pharma companies are converted into cash. The study also determines if there is a statistical difference between Debtors turnover over a period of 10 years in sample companies of Pharma sector.

LITERATURE REVIEW

Quayyum (2011) studied on the effects of Working capital management and liquidity on profits of cement manufacturing companies listed on Dhaka stock exchange. The results showed that efficient liquidity management has a positive impact on the firms' profitability. Innocent, E. C., Mary, O. I., & Matthew, O. M. (2013) examined the relationship between the financial ratio analysis and profitability of the Nigerian Pharmaceutical industry. Studies concluded that debtors' turnover ratio has no significant relationship on the profitability of the pharmaceutical company. Allad, I. (2017) conducted research on Indian software companies and concluded that debtor's turnover ratio of Infosys Ltd. showed a satisfactory result as compared to other selected Indian IT companies over the period of study.

Devika, P., & Indhu, K. (2022) concluded that debtor's turnover ratio of KCP cement company and India cement company has been fluctuating year by year from 2003 to 2012. The researchers suggested that there is a need for the companies to control credit sales and reduce the average collection period. Sharma, M. S. (2022) analysed Financial Performance of Indian public sector enterprises post covid using ratio analysis. The

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studies concluded an efficient receivables management since sales of Steel Authority of India Limited (SAIL), have turned quickly into sales.

CS. Prasad Krishna. et al. (2023) conducted a study on Working Capital and ratio analysis at Tata Steel. The researchers concluded that high debtor's turnover ratio shows very less risk from debtors and ensures liquidity. Wokeh, P. I. P. (2023) examined the effect of debtor's management on financial performance of construction and real estate companies in Nigeria from 2012 to 2021. The researcher concluded that debtor's management has an insignificant impact on financial performance of listed construction and real estate companies in Nigeria.

RESEARCH METHODOLOGY

The study is conducted on top ten Indian pharmaceutical companies listed on BSE for period of 10 years from 2013-2014 to 2022-2023. The sample companies are selected based on their Market capitalisation. The study uses secondary data from annual reports and financial statements sample pharma companies listed on National Stock exchange.

Analysis tools: Mean of debtors turnover ratio is taken for analysis of selected Indian Pharma companies. Analysis of variance is used for testing of hypothesis. Significance is ultimately determined using a significance probability value (P value).

Table 1: List of companies under pharmaceutical sector selected for the study:

Sr. No.	***Pharma Companies***
1	Abbott India
2	Alkem Laboratories
3	Aurobindo Pharma
4	Cipla
5	Divi's Laboratories
6	Dr Reddy's Laboratories
7	Lupin Limited
8	Sun Pharma
9	Torrent Pharma
10	Zydus Lifesciences

FINDINGS

A. **Financial health check-up** of the business depends upon analysing its liquidity, solvency, operating efficiency, and profitability. Credit policy of a business states set of rules and standards which directs how business grants credit to its customers and collection method. The company's credit policy has been used as a tool to study the financial health of Pharma companies. Debtors turnover ratio has been considered from 2013-2014 to 2022-2023 to study credit policy and its effectiveness among pharmaceutical businesses.

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B. Data Analysis I

Table 2: Company wise analysis and interpretation of Debtors turnover ratio

DEBTORS TURNOVER OF PHARMACEUTICAL COMPANIES (IN TIMES)											
Years	**Abbott India**	**Alkem Lab**	**Aurobindo Pharma**	**Cipla**	**Divi's Lab.**	**Dr Reddy's Labs**	**Lupin limited**	**Sun Pharma**	**Torrent Pharma**	**Zydus Lifesciences**	**Mean**
2013-2014	20.28	8.49	3.07	6.19	3.51	4.06	4.56	7.3	3.8	6.4	**6.77**
2014-2015	17.38	7.02	3.41	5.7	4.2	3.65	4.8	5.37	2.92	5.45	**5.99**
2015-2016	18.25	8.69	2.99	5.89	4.29	3.76	3.15	4.2	4.62	5.37	**6.12**
2016-2017	16.59	7.93	5.37	5.62	4.51	3.72	4.01	4.4	6.08	4.1	**6.23**
2017-2018	12.59	5.89	5.37	4.87	3.84	3.51	3.04	3.38	4.74	3.72	**5.10**
2018-2019	13.52	5.89	5.7	3.92	4.24	3.88	2.85	3.26	5.37	3.32	**5.20**
2019-2020	13.04	5.07	5.37	4.4	3.8	3.48	2.83	3.48	4.8	3.88	**5.02**
2020-2021	17.38	5.53	7.02	5.53	4.15	3.84	3.38	3.69	5.29	4.62	**6.04**
2021-2022	17.38	5.62	5.89	6.4	3.69	3.23	3.84	3.65	5.21	4.56	**5.95**
2022-2023	16.59	5.45	5.53	5.62	4.35	3.41	3.72	3.84	4.93	3.88	**5.73**
Mean	**16.30**	**6.56**	**4.97**	**5.41**	**4.06**	**3.65**	**3.62**	**4.26**	**4.78**	**4.53**	**5.81**
SD	**2.48**	**1.36**	**1.35**	**0.78**	**0.33**	**0.25**	**0.69**	**1.24**	**0.88**	**0.95**	**1.03**

(Compiled by the author using Annual reports of respective companies)

Table 2 reflects the debtors turnover ratio of 10 sample companies for a period of 10 years from 2013-2014 to 2022-2023. It also reflects industry wise and company wise mean of pharmaceutical companies along with standard deviation of each company throughout the sample period. Individual company wise trends of credit policy reflects the following:

1. Abbott India

From Table 2, debtors turnover of Abbott Ltd. during 2013-2014 was 20.28 times being highest during our study period. However, a gradual fall was observed over the years. The company had lowest turnover of 12.59 times in 2017-2018. The average ratio was 16.30 times which indicates that ratio of 3 years was below average, whereas rest of the 7 years were above average. The analysis also indicated a decreasing trend till 2017-2018 and then showed fluctuations in the debtors turnover ratio for the remaining period.

2. Alkem Laboratories

Table 2 above reveals that debtors turnover of Alkem Lab during 2015-2016 was 8.69 times being highest during our study period. However, a gradual fall was observed from 2015-2016 till 2019-2020. The company had lowest turnover in 2019-2020. The average ratio was 6.36 times which indicates that ratio of 4 years was above average, whereas rest of the 6 years were below average.

3. Aurobindo Pharma

From Table 2, debtors turnover of Aurobindo Pharma Ltd. during 2020-2021 was 7.02 times being highest during our study period. However, a gradual fall was observed after that. The company had lowest turnover (2.99 times) in 2015-2016. The average ratio was 4.97 times which indicates that ratio of first three years was below average, whereas rest of the 7 years were above average. The analysis also indicated a decreasing trend till 2015-2016 and then showed an increasing fluctuation in the debtors turnover ratio for the remaining period.

4. Cipla

Table 2 above reveals that debtors turnover of Cipla during 2013-2014 was 6.19 times which reduced to 5.7 times during 2014-2015. There was a slight increase in debtors turnover ratio during 2015-2016. The ratio gradually moved down to 3.92 times in 2018-2019. The ratio increased to 6.40 times in 2021-2022 being highest during our study period. The average ratio was 5.41 times which indicates that ratio of 3 years was below average, whereas rest of the 7 years were above average.

5. Divi's Laboratories

From Table 2, debtors turnover of Divi’s Laboratories during 2013-2014 was 3.51 times which increased to 4.2 times during 2014-2015 and 4.29 times during 2015-2016. The increase went upto 4.51 times in 2016-2017 which is the highest during our study period. The average ratio was 4.06 times which indicates that ratio of 3 years was below average, whereas rest of the 7 years were above average.

6. Dr Reddy's Laboratories

Table 2 above reveals that debtors turnover of Dr Reddy's Laboratories during 2013-2014 was 4.06 times which is the highest during our study period. The ratio reduced to 3.65 times in 2014-2015 and then again increased to 3.76 times in 2015-2016. The trend showed fluctuations wherein after every 2 years, the ratio increased and then had a fall. During 2022-2023, the ratio increased to 3.41 times after a fall in 2021-2022 to 3.23 times. The average ratio was 3.65 times which indicates that ratio of 4 years was below average, whereas rest of the 6 years were above average.

7. Lupin Limited

From Table 2, debtors turnover of Lupin ltd during 2013-2014 was 4.56 times after which the ratio increased to 4.8 times during 2014-2015 which is the highest during our study period. The ratio reduced to 3.15 times in 2015-2016 and then again increased to 4.01 times in 2016-2017. The trend showed a fall to 2.83 times in 2019-2020. The ratio then increased upto 3.84 times in 2021-2022 and again fell slightly to 3.72 times in 2022-2023. The average ratio was 3.62 times which indicates that ratio of 5 years was below average and rest of 5 years were above average.

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8. Sun Pharma

Table 2 above reveals that debtors turnover of Sun Pharma during 2013-2014 was 7.3 times which is the highest during our study period. The ratio reduced to 5.37 times in 2014-2015 and then showed a decreasing trend in 2015-2016 upto 2022-2023. The average ratio was 4.26 times which indicates that ratio of 3 years was above average, whereas rest of the 7 years was below average.

9. Torrent Pharma

As indicated in Table 2, debtors turnover of Torrent Pharma during 2013-2014 was 3.8 times and then reduced to 2.92 times in 2014-2015. The ratio then increased to 6.08 times in 2016-2017 which is the highest during the period of study. The average ratio was 4.78 times which indicates that ratio of 6 years was above average, whereas rest of the 4 years was below average. The ratio from 2017-2018 was 4.74 times which showed a fluctuating trend with 4.93 times in 2022-2023.

10. Zydus Lifesciences

From Table 2, debtors turnover of Zydus Lifesciences during 2013-2014 was 6.4 times being highest during our study period. However, a gradual fall was observed over the years to 3.32 times (lowermost) in 2018-2019. The turnover ratio than increased from 2018-2019 to 2020-2021 to 4.62 times and then showed a decreasing trend till 2022-2023 to 3.88 times. The average ratio was 4.53 times which indicates that ratio of 5 years was below average, whereas rest of the 5 years were above average.

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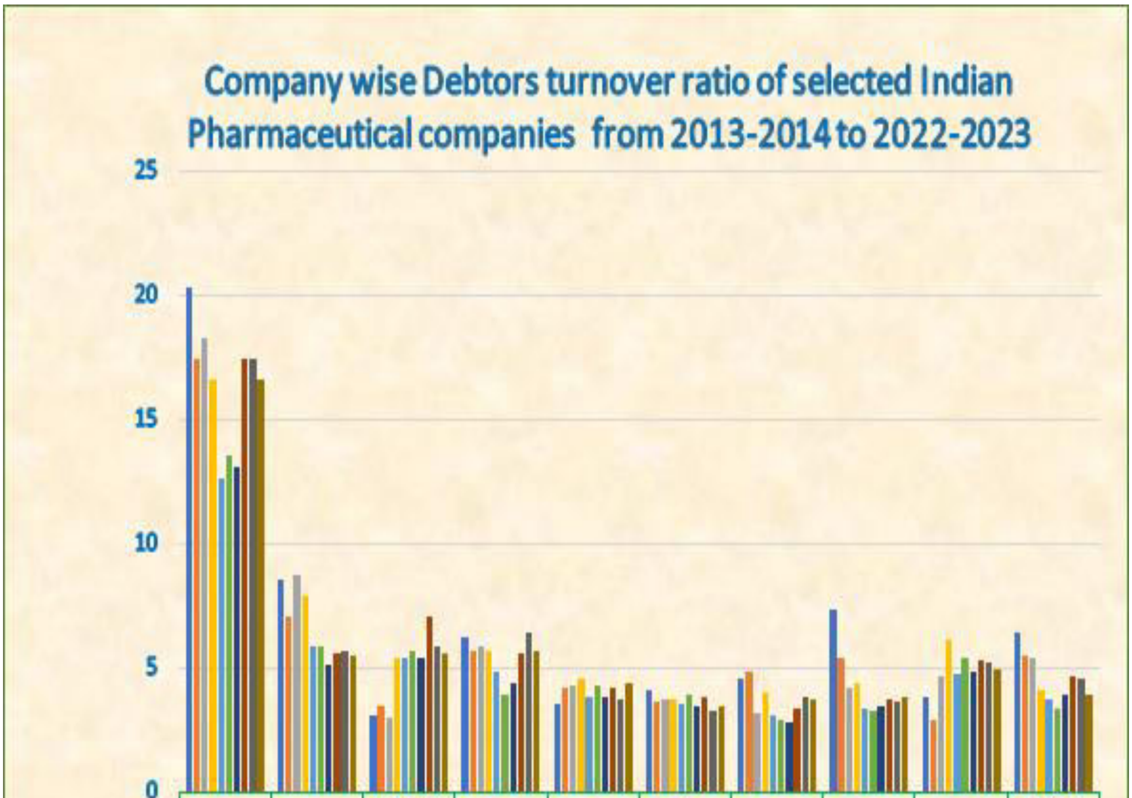
Figure 1: Company wise debtors turnover of selected Indian pharmaceutical companies from 2013-2014 to 2022-2023



	Abbott India	Alkem Lab	Aurobindo Pharma	Cipla	Divi's Lab.	Dr Reddy's Labs	Lupin limited	Sun Pharma	Torrent Pharma	Zydus Lifesciences
2013-2014	20.28	8.49	3.07	6.19	3.51	4.06	4.56	7.3	3.8	6.4
2014-2015	17.38	7.02	3.41	5.7	4.2	3.65	4.8	5.37	2.92	5.45
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2016-2017	16.59	7.93	5.37	5.62	4.51	3.72	4.01	4.4	6.08	4.1
2017-2018	12.59	5.89	5.37	4.87	3.84	3.51	3.04	3.38	4.74	3.72
2018-2019	13.52	5.89	5.7	3.92	4.24	3.88	2.85	3.26	5.37	3.32
2019-2020	13.04	5.07	5.37	4.4	3.8	3.48	2.83	3.48	4.8	3.88
2020-2021	17.38	5.53	7.02	5.53	4.15	3.84	3.38	3.69	5.29	4.62
2021-2022	17.38	5.62	5.89	6.4	3.69	3.23	3.84	3.65	5.21	4.56
2022-2023	16.59	5.45	5.53	5.62	4.35	3.41	3.72	3.84	4.93	3.88

(Compiled by the author using annual reports of respective companies)

C. Data Analysis II

Parametric test- Analysis of variance (ANOVA) is used to understand the distribution of the debtors turnover among selected companies. It is also used to test the hypothesis and its significance for this study.

Table 3: Analysis of Variance (One way)

Source of Variation	***Sample size (SS)***	***Degree of freedom(df)***	***Mean square***	***F***	***Sig***
Between Groups	1291.0060	9	143.4451	100.3147	0.000
Within Groups	128.6956	90	1.4300		
Total	**1419.7015**	**99**			

(Compiled by the author)

Table 3 reflects that significance value is 0.000, which is lower than significance threshold of P<0.05. Hence, null hypothesis is rejected at 95% significance level. Results state that there is a significant difference among debtors' turnover ratio of selected pharma companies.

D. Data Analysis III

Considering Table 1, it can be observed that there has been a fluctuating trend of credit policies observed among sample Indian pharmaceutical sector from 2013-2014 to 2022-2023. It varied between 2.83 times in 2019-2020 of Lupin ltd. to 20.28 times in Abbott ltd. during 2013-2014.Observing the industry average of debtors turnover ratio of Pharma companies (5.93 times), it can be stated that the mean of Aurobindo Pharma, Cipla, Divi's Lab., Dr Reddy's Labs, Lupin limited, Sun Pharma and Zydus life sciences is below the industry standard whereas Abbott India and Alkem laboratories is above industry standard. Considering mean of sample companies, debtors turnover of Lupin and Dr. Reddy's Labs has a poor collection policy as compared to other pharma companies. Hence receivables of Abbott India and Alkem laboratories are highly liquid and have prompt collection from debtors. Since the value of standard deviation of Abbott India is high (2.48), the company has high degree of risk in terms of its credit policy.

CONCLUSION

Overall, the financial health check of the Indian pharmaceutical industry using credit policy as an indicator has provided valuable insights into the performance of selected pharma companies. The study analysed the trends in credit policy and ascertained difference among Debtors turnover ratio of pharmaceutical companies in India.

Results state that Abbott India and Alkem Laboratories have prompt collection from its debtors. However, the credit policy of Abott India reflects high degree of risk. The study concludes that there is a significant difference among debtors turnover ratios of the pharma companies in India, with some performing better than others in terms of prompt collection from debtors. It is important for companies to maintain a healthy credit policy to ensure good financial health in the long term. By using data-driven analysis and monitoring of credit policies, companies in the pharmaceutical industry can improve their performance and remain competitive in the market.

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