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FINANCIAL APPRAISAL OF MULTINATIONAL PHARMACEUTICAL COMPANIES IN INDIA (Novartis India Ltd. & Glaxo India Ltd.)

Kishor Kumar
Research Scholar
CMJ University
Shillong, Meghalaya

Rajiv Chopra
Associate Professor
Sri Aurobindo College
University of Delhi, Delhi

ABSTRACT: The paper applies financial appraisal of multinational pharmaceutical company in India. It means evaluate how well the company performs. The main aim is achieved through ratio analysis of two pharmaceutical (Novartis India Ltd. & Galxo India Ltd.) companies in India. The main data collection from the annual financial reports of Novartis India Ltd. & Galxo India Ltd. Pharmaceutical companies from 2007 to 2011. Different financial ratio are evaluated such liquidity ratios, asset management ratios, profitability ratios, market value ratios, debt management ratios and finally measure the best performance between two companies. The object of the present research study is to make a financial appraisal of these two units. The object is to make a SWOT analysis strength, weakness, opportunities and threats. We seek to make a comparison between the two units, to find out their financial strength and weaknesses. A large population, poor infrastructure with low literacy rate, poor sanitation and a large number of people living below the poverty line translates to poor health care. The WHO reports 2011 revealed alarming findings about the disease burden prevailing in India and much of the developing world. These two companies have a name and fame in providing healthcare to the nation. The study aims at applying the techniques of Financial Analysis to arrive at some conclusion.

KEYWORD: Profitability analysis, Ratio analysis, Capital Employed, Shareholders Fund

1. INTRODUCTION

Performance appraisal of a company is usually related to how well a company can use it assets, share holder equity and liability, revenue and expenses. Financial ratio analysis is one of the best tools of performance evaluation of any company. In order to determine the financial position of the pharmaceutical company and to make a judgment of how well the pharmaceutical company efficiency, its operation and management and how well the company has been able to utilize its assets and earn profit.

NOVARTIS INDIA LIMITED:

Novartis India Limited established in 1947 is an affiliate of Novartis A.G. The Company has merged with itself Hindustan Ciba Giegy Ltd. and Sandoz India Ltd. The company is a global leader in the Life Sciences committed to improving health and well being through innovative products and services. The company has a country wide presence in Healthcare & Agri-business through its Pharmaceuticals, CIBA vision crop protection, seeds and animal health care sectors.

The company has contributed to Indian Agriculture through its high quality crop protection and chemicals and hybrid variety of seeds. The green revolution in India was possible primarily on account of the new hybrid and high yielding variety of seeds adequately supported by other inputs. Novartis contributes towards these efforts through a variety of seeds it produces and markets in the

country. In the field crops these Hybrids includes cotton, maize, sunflower, bajra, jowar and carter. In the area of the vegetables it has hybrids in tomato, cabbage, cauliflower, capsicum, chilli, bhendi, bringle, watermelon, melon, gawar, cowpea and sweet corn.
For Animal husbandary and dairy farming the company has several products such as Fasinex, Ekkomin, Endex and Lutalyse. Novartis offers a range of products in tablets and syrup form for the tuberculosis patients including Rimactazid, pza Ebutol sand Rimactane. For the treatment of breast cancer the company produces Femara. For the treatment of an old age disease Alzheimer disease the company produces Excelon. The company also manufacture & Eye care products. Today there are contact lenses to suit practically every need. Daily wear lenses with a life of one year, Daily Wear Monthly & Fortnightly Disposable lenses for Astigmatic patients and also Focus night and day lenses.

GLAXO INDIA LIMITED :

Glaxo India Limited established in 1924 is the subsidiary of Glaxo Welcome Pic U.K. a household name in Pharmaceuticals. Glaxo India has for over decades maintained its position as the industry leader. The company seeks out new options for India in the 'bullock-cart' markets of rural India and the 'cyber_ space' markets tomorrow India. The company has a large portfolio of two hundred products. The company manufactures ceftum, stibbs, an anti-diarrhoeal medicine, Phexin BD and Zondon for the treatment of Nausea. It also manufactures Alpha-D3 for the 'treatment of osteoporosis. The company enjoys status of a 'Recognise Export House' and is attempting to achieve a Trading House status. The company also manufactures qualigens fire chemicals and number of farm cattle and poultry care products. Glaxo India was ranked as India's most respective company by Business World Magazine in 2010. Glaxo took the top honour in a survey conducted by Business World – India Research.

2. RESEARCH METHODOLOGY

The present research study is based on the financial analysis of the Annual Reports of the two companies. Besides the annual reports other data regarding these companies were obtained from their respective head offices at Mumbai. Questionnaires were prepared and information was obtained from the officials of the two companies. Ratio analysis, trend analysis and trend percentages were also calculated from the data collected from these companies. To make the figures comparable inflation accounting techniques were used and factors were calculated to convert the historical figures into current figures. Books on inflation accounting provide no objective method of converting the historical figures into current figures.
To make adjustment in historical figures wholesale price index numbers relating to the Pharmaceutical industry were compiled from the RBI Bulletins relating to the years 2007 to 2011. Help of reference and text book on accounts and financial management were also taken.

3. OBJECTIVES :

The current study main objective is to analyze the profitability, and the growth rate of Select Pharmaceutical companies.

4. SOURCES OF DATA

For the current analysis data is secondary data and were collected from the financial reports of the selected pharmaceutical companies from the year 2007-2011. From internet (www.moneycontrol.com).

5. PROFITABILITY ANALYSIS

The measurement of profit is one of the different problems faced by the accounting profession. Accountant's concept of profit differs from that of economists. The figure of accounting profit is the result of the application of generally accepted accounting principles. Profitability ratios are used to assess the company's performance and its efficiency of operation. Profitability ratios show the relationship between profit and resources employed in the operation. As profits are used to fund business development and pay dividends to shareholders, a company's profitability and how efficient it is at generating profits is an important consideration for shareholders.

CONCEPT OF PROFIT:

The difference between Revenue (*or* sales) and cost of goods sold is called gross profit. When we deduct all other expenses, including interest and taxes from gross profit, we obtain profit after tax (PAT) or net profit (NT).

PROFITABILITY BASED ON CAPITAL EMPLOYED:

A popularly used measure of profitability based on capital employed is Return on Investment or Capital Employed indicates the efficiency with which the management has used its available resources to generate profit. It measures the amount of profit earned relative to the firm's level of investment in total assets. A higher ROI shows the higher overall profitability of the firm and vice-versa.

Return on Investment = (Profits before tax)/(Capital Employed) × 100

Capital Employed = Share Capital + Reserves and Surplus + Long term debts – Fictitious Assets

or

Capital Employed = Shareholder's Funds = Fixed Assets + Working Capital

or

Capital Employed = Shareholder's Funds + Long-term debts

PROFITABILITY BASED ON RETURN ON SHAREHOLDER'S FUND:

It measures return on shareholders' fund instead of only paid up value of equity share capital. It helps to judge the leverage effect ratio. A higher ratio denotes a higher level of management performance and higher return to shareholders.

Return on Net Worth = (Net Profit)/(Net Worth) × 100

Net Worth = Share holders' fund i.e. Equity Capital + Preference Share Capital + Reserve & Surplus Losses

6. DATA ANALYSIS AND INTERPRETATION

Table A - Gross Profit Ratio in Glaxo India Ltd. & Novartis India Ltd. during the year 2007-2011

(Rs. in Lakhs)

	Glaxo India Ltd.			**Novartis India Ltd.**		
Year	Gross Profit	Sales	GP Ratio	Gross Profit	Sales	GP Ratio
2007	14163	56103.93	25.24%	5468	47646.72	11.50%
2008	49229	64500.97	76.32%	5313	50999.65	10.40%
2009	21697	69600.93	31.17%	4623	60720.64	7.60%
2010	24122	79384.04	30.38%	6265	66299.15	9.40%
2011	25121	88549.85	28.36%	10014	74713.69	13.40%

Source: Annual Reports

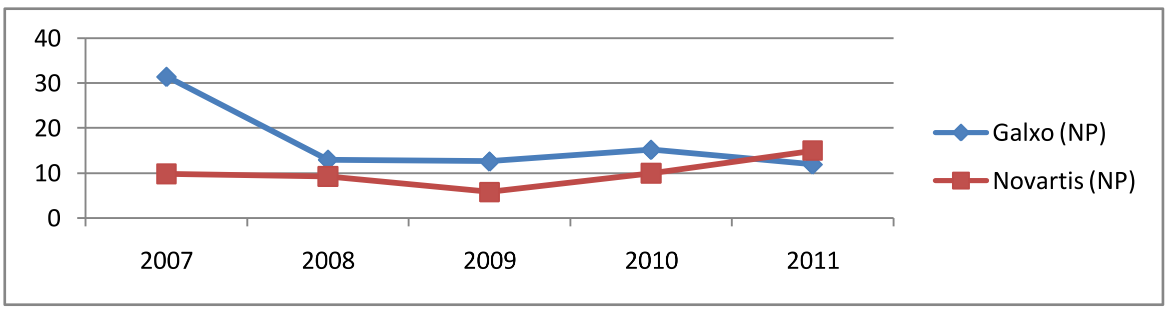
INTERPRETATION: On analysing the above table it can be concluded that the average GP Ratio in Glaxo India Ltd. is 38.29% which is around 10.46% in Novartis. This shows that Glaxo India Ltd. is in a better position. GP Ratio of Glaxo India Ltd. was found to be abnormally high in 2008 because of profit on sale of one of its undertaking.

Table B - Net Profit Ratio in Glaxo India Ltd. & Novartis India Ltd. during the year 2007-2011
(Rs. in Lakhs)

Glaxo India Ltd.				Novartis India Ltd.		
Year	Net Profit	Sales	NP Ratio	Net Profit	Sales	NP Ratio
2007	17589.61	56103.93	31.4%	4669.41	47646.72	9.8%
2008	8304.70	64500.97	12.9%	4710.67	50999.65	9.2%
2009	8662.71	69600.93	12.5%	3536.95	60720.64	5.8%
2010	12003.18	79384.04	15.12%	6567.25	66299.15	9.9%
2011	10494.88	88549.85	11.85%	11164.11	74713.69	14.9%

Source: Annual Reports

Graphically Presentation of Net Profit Ratio in Glaxo India Ltd. & Novartis India Ltd



INTERPRETATION : The average net profit ratio in Glaxo was found to be 6.75% and in Novartis it was 9.92% during the same period.

Table C - Return on Shareholder's in Glaxo India Ltd. & Novartis India Ltd. during the year 2007-2011

Year	Glaxo India Ltd.	Novartis India Ltd.
2007	79.62%	7.20%
2008	18.70%	8.00%
2009	15.30%	9.00%
2010	26.80%	16.00%
2011	21.40%	27.00%

Source: Annual Reports

INTERPRETATION : From table l.2 we find that the average return for Glaxo India Ltd. Is 32.36% which is far better than that of Navortis India Ltd's 13.44%. During 2007 the return on share holders' fund of Glaxo India Ltd. was abnormally high due to profit on sale of one of its undertaking

Table D - Return on Capital Employed in Glaxo India Ltd. & Novartis India Ltd.

Year	Glaxo India Ltd.	Novartis India Ltd.
2007	67.8%	11%
2008	34.0%	15%
2009	30.5%	18%
2010	37.7%	29%
2011	30.4%	38%

INTERPRETATION : The average rate of return on capital employed in Glaxo India Ltd. is 40.08% which is 1.8 times higher than that of Novartis.

Graph Showing Return on Capital Employed in Glaxo India Ltd. & Novartis India Ltd.

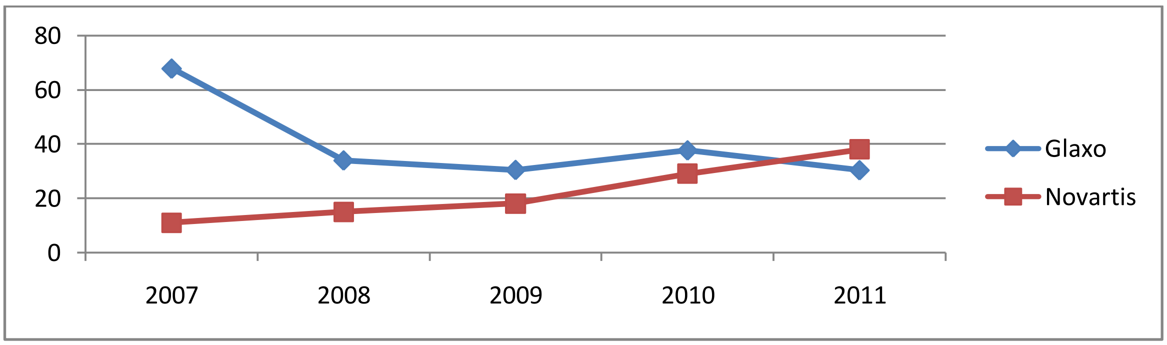
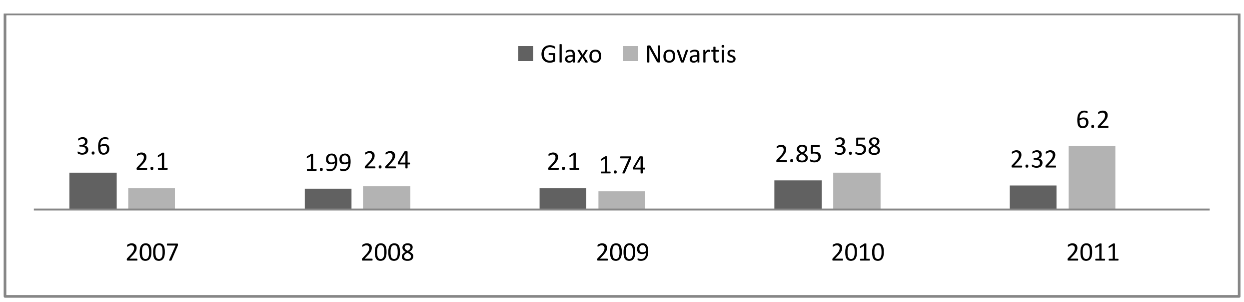


Table E – Profit per Employee in Glaxo India Ltd. & Novartis India Ltd.

(Rs. in Lakhs)

Glaxo India Ltd.				Novartis India Ltd.		
Year	PBT	No. of Employees	Profit per Employee	PBT	No. of Employees	Profit per Employee
2007	17589.61	4889	3.60	4669.41	2220	2.10
2008	8304.70	4330	1.99	4710.67	2105	2.24
2009	8662.71	4123	2.10	3536.95	2034	1.74
2010	12003.18	4207	2.85	6567.25	1834	3.58
2011	10494.88	4529	2.32	11164.11	1800	6.20

Bar diagram showing Profit per Em ployee in Glaxo India Ltd. & Novartis India Ltd



INTERPRETATION: The table reveals a higher profit per employee in Novartis in comparison to Glaxo. The reason is not hard to trace. There seems to be over staffing in Glaxo. Glaxo is advised to shed its fat in terms of number of employees or else it may be heading towards trouble and consequent adverse effect on its bottom line.

7. CONCLUSION

The GP ratio of Glaxo India Ltd. and Novartis India Ltd. have been compared. The GP ratio of Glaxo India Ltd. shows an increase from 25.24% to 28.36% during the quinquinnum under study. In the Novartis India Ltd. it has risen from 11.50% to 13.40% during the same period. A higher profit per employee was in Novartis. There as on was attributed to over staffing in Glaxo. Glaxo should shed its fat in terms of excess staff. The return on shareholders' fund has fallen to 21.40% from 79.62% in Glaxo Ltd. but the same has risen to 27% from 7.20% in Novartis Ltd., during the period under study. The average net profit ratio in Glaxo was found to be 6.75% and in Novartis it was 9.92% during the same period. The average rate of return on capital employed in Glaxo India Ltd. was found to be 40.08% being 1.8 times higher than in Novartis. The profit per employee in Glaxo India Ltd. Has decreased from Rs. 3.60 lakhs to Rs. 2.32 Lakhs and it has increased in Novartis India Ltd. from 2.01 lakhs to 6.20 lakhs during the year 2007-2011.

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