ANALYTICAL STUDY OF INORGANIC GROWTH IN PHARMACEUTICAL INDUSTRY

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Abstract:Indian pharmaceutical industry plays vital role in development of economy contributing towards the welfare of humanity and providing significant socioeconomic benefits to the society. Indian pharma industry has a strong global foothold with accounting about 2.4 percent of the global pharmaceutical industry in value terms and 10 percent in volume terms and is expected to expand at $55 billion by 2020.Corporate restructuring has emerged as powerful tool during last decade for companies to revive the performance in many aspects and to revive & realign themselves. Corporate restructuring always aims at improving on the quality which can be further quantified in measurable terms. Hardest challenge for corporate in present days is to sustain their position in the market profitably. The objective of the study was to study the inorganic growth strategies adopted by Indian pharmaceutical industry, reasons and impact of strategy on the financial performance.Finding of the research shows that synergies generated through the inorganic growth take a long run to show the impact on the financial performance.Asset sale and Merger and Acquisition has been the most preferred way of inorganic growth in pharmaceutical industry .According to analysts market penetration and gaining competitive edge in the market and sustaining its leadership position has emerged as the major reasons for the corporate to opt for the inorganic growth.To maintain its market leadership companies have to grow horizontally and appropriately restructure themselves as per the need of the hour. In today's business environment companies can't rely only on organic growth and due to this reasons more and more corporate are opting for inorganic growth.

Keywords:**Merger & Acquisition, inorganic growth .Financial performance**

I. INTRODUCTION

Indian pharmaceutical industry plays vital role in development of economy contributing towards the welfare of humanity and providing significant socioeconomic benefits to the society. Indian pharmaceutical markets is among the in the fastest-growing market in the world and has established itself as a global manufacturing and research hub.

Indian pharma industry has a strong global foothold with accounting about 2.4 percent of the global pharmaceutical industry in value terms and 10 percent in volume terms and is expected to expand at $55 billion by 2020. Moreover, generic drugs account for 20 percent of global exports in terms of volume, making the country the largest provider of generic medicines globally and expected to expand even further in coming years. (Sectoral report Ace Equity).

Corporate restructuring has emerged as powerful tool during last decade for companies to revive the performance in many aspects and to revive & realign themselves.. Corporate restructuring has enabled various business firms to respond quickly and more effectively to new opportunities and hedge themselves from the unexpected pressures to gain competitive edge over the peers.Hardest challenge for corporate in present days is to sustain their position in the market profitably.Corporate are opting for the inorganic growth to gain the sustainability in growth.

In the report titled "Inorganic Expansion to Drive Generic Majors' Growth", authors KaustubhChaubal, vice-president and senior analyst, and Diana Beketova, associate analyst at Moody's, said Indian pharmaceutical companies will continue to seek growth through the acquisition of overseas assets in the next 18-24 months, with the aim of deepening their geographical and product diversity, and further increasing their presence in developed and emerging markets. The report focuses on six leading Indian pharmaceutical companies that have acquisition-led growth and/or have a sizeable presence in the US, namely, Sun Pharmaceutical Industries Ltd, Dr Reddy's Laboratories Ltd, Lupin Ltd, Cipla Ltd, Aurobindo Pharma Ltd and Cadila Healthcare Ltd. Mint (Dec 13 2016) .

II. RESEARCH PROBLEM

To maintain its market leadership companies have to grow horizontally and appropriately restructure themselves as per the need of the hour. Company can opt for either the organic growth or it can go for inorganic growth. But in today's business environment companies can't rely only on organic growth and due to this reasons more and more corporate are opting for inorganic growth.

III. OBJECTIVES OF THE STUDY

1. To study the inorganic growth strategies adopted by Indian pharmaceutical industry in last decade.
2. To study the reasons behind selecting inorganic growth versus organic growth by Indian Pharma Companies.
3. To study the impact of inorganic growth strategies on the financial performance of the selected companies

IV. RESEARCH METHODOLOGY

4.1 Research design

The study involves the investigation of cause and effect relationships of inorganic route on financial performance.

4.2 Sample Size

Selective sampling method has been applied and five Pharmaceutical companies who have opted for the inorganic growth through merger and acquisitions

1. Sun pharma2. Piramal3. Dr Reddy4. Torrent Pharma5.Lupin Ltd

Table1 Parameter selected for the financial performance analysis

Areas selected	Ratios Selected
Operational & Financial Ratios	Earnings Per Share (Rs)
	DPS
Performance Ratios	ROA
	ROE
	ROCE
	Assets turnover Ratio
Growth Ratio	Net Sales Growth
	EBIT Growth
Financial Stability Ratios	Total Debt/Equity
	Current Ratio
	Quick Ratio
	Interest Coverage Ratio

Period of the study is 2007-2018. Financial Performance 3 year's pre and 3 years post deal period will be selected.

4.3 Data Analysis & statistical tools used

3 years pre and post financial performance have been compared and data has been tested by applied t test at 5 % level of significance.Paired sample t-test is a statistical technique that is used to compare two population means in the case of two samples (useful when you have two interval/ratio variables) that are correlated. Paired sample t-test is used in between the pre and post studies. Reasons behind opting inorganic growth has been studied through carrying out structured personal interview with the Merger and Acquisition analyst .

4.4 Limitations

This study is carried out by selecting limited number of companies and the limited parameter and is dependent upon the data available.

V. REVIEW OF LITERATURE

Dr. Yusuf Ali Khalaf Al-Hroot (2015) They concluded that financial performance of merger Jordan Ahli bank insignificantly improved in the post-merger period. Post-merger leverage, efficiency ratios significantly improved, while cash flow ratio insignificantly improved. In addition, liquidity ratios includes 5 ratios, 4 ratios significantly deteriorated after merger except investment to total assets deteriorated but insignificantly, while net credit facilities to total deposits (Gross advances to total deposits) improved but insignificantly to compare these sectors together to conclude which sector has the most significant impact after merger**Mishra and Chandra (2010)** examined Indian pharmaceutical firms' performance with respect to Merger and Acquisition. They observed that Merger and Acquisition is not effective in improving the profitability of the firm in long run.**Kaushik&sinha (2010)**in their research examined the impact of mergers and acquisitions on financial performance of the selected financial institution in India between a period of 2000-2008. Their study observed significant correlation between financial performance and the M&A deal in a long term and definitely in long run the deal was able to create the value for the stakeholders.**Muhammad (2010)**with the help of accountingratios analyze the financial performance of RBS banks in Pakistan after merger. The study concludes that there is no improvement in financial performance of the bank post-merger.**Mishra Chandra**

(2010) in their research examined the impact of MA on financial performance of Indian pharmaceutical companies. They don't find the significant impact of M&A on profitability of the firms in the long run possibly and that might be due to resultant X-inefficiency and entry of new firms into the market .**Liargovas&Repousis (2011)**examined the impact of mergers and acquisitions on the performance of the Banks in Greek banking sectors by taking the period from 1996-2009..The study claims that there is no significant impact in the financial ratio and the deals didn't create any wealth to the shareholders .**Azhagaiah& Kumar (2011)**in their research examines the corporate performance of selected manufacturingfirmsinpost-merger phase. Their study shows the mixed results for the pre-and post-merger values. There has been an increase in the profitability, and financial and operating risk. Liquidity position, operating performance,. Overall there exists the improvement in the performance of the firms in post-merger period.

5.1 Data Analysis

Table 2 Preferred Methodof inorganic growth opted by Pharmaceutical companies

Methods	Rank
Asset Sale	1
Merger and Acquisition	2
Divestiture	3
Private Equity	4
Joint Venture	5

(Source: Primary Data)

Table 3 Reasons of opting for Inorganic Growth

Reasons	Rank
Market Penetration	1
Competitive Advantage	2
ProductAdvantage	3
Financial needs	4
Research and Development	5

(Source: Primary Data)

Table 4 Table Showing Deals of the Selected Companies

Acquirer	Target	Deal Type	Year	Value
Sunpharma	Ranbaxy	Acquisition	2014	$4 billion
Abbot	Piramal Health care	Acquisition	2010	$3.72 billion
Dr Reddy	Belgium-based pharma company UCB	Acquisition	2016	$128.38 million
Torrent Pharma	Elder Pharma	Acquisition	2014	$324 million
Lupin Limited	Gavisand Novel Laboratories	Acquisition	2015	$880 million

Table 5 Analysis of Financial performance Pre M&A and Post M&A

Parameter		Mean	Std Dev	T	P	Remarks
Earnings Per Share (Rs)	Pre	25.91	81.35	-1.21	0.31	Not Significant
	Post	56.07	1698.72			
DPS(Rs)	Pre	6.35	20.88	-4.00	0.03	Significant
	Post	19.19	79.21			
ROA (%)	Pre	14.50	15.34	-0.75	0.51	Not Significant
	Post	19.19	79.21			
ROE (%)	Pre	28.09	3.40	1.174	0.30	Not Significant
	Post	20.14	198.25			
ROCE (%)	Pre	28.11	4.54	0.97	0.40	Not Significant
	Post	19.63	262.51			
Assets turnover Ratio	Pre	0.92	0.05	1.28	0.29	Not Significant
	Post	0.63	0.10			
Net Sales Growth(%)	Pre	25.08	138.43	0.62	0.58	Not Significant
	Post	18.99	249.00			
EBIT Growth (%)	Pre	32.33	112.21	0.84	0.46	Not Significant
	Post	21.12	476.87			
Total Debt/Equity(x)	Pre	0.42	0.11	-0.59	0.59	Not Significant
	Post	0.55	0.04			
Current Ratio(x)	Pre	2.21	1.65	1.65	0.20	Not Significant
	Post	1.42	0.31			
Quick Ratio(x)	Pre	1.62	1.23	1.25	0.30	Not Significant
	Post	1.05	0.11			
Interest Cover(x)	Pre	34.34	1265.70	-0.58	0.60	Not Significant
	Post	45.92	4379.24			

*Significance Level 5% (Source: Data Analysis)

5.2 Findings

Significance of results: P value of Dividend per share is 0.03 which is significant at 5 % Level, rest value are insignificant at 5 % level of t test. Improvement has been witnessed in the Earning per share ratio, Dividend ratio, Return on assets and return on equity, Debt equity ratio and interest coverage ratio .Return on capital employed ratio, Assets turnover ratio, Net sales growth ratio, EBIT growth ratio, current ratio and quick ratio has not shown any improvement.

From the above analysis it has been observed that earning has rise due to the expansion activities with a simultaneous rise in asset base of the organization .Synergies generated through the inorganic growth take a long run to show the impact on the financial performance.

Asset saleand Merger and Acquisition has been the most preferred way of inorganic growth in pharmaceutical industry .According to analysts market penetration and gaining competitive edge in the market and sustaining its leadership position has emerged as the major reasons for the corporate to opt for the inorganic growth.

VI. CONCLUSION

Inorganic growth being opted and implemented with integration and proper planning, can allow a company to leapfrog into a new avenues of markets, products, research and development and technologies overnight. It may well take many years of toil to get into that avenues and growth if a company stuck to organic growth alone. The ability to derive benefits and long-term financial returns from successful M&A is critical to its success. After opting for the inorganic growth one must integrate "" efficiently and quickly "" in order to derive benefits.

Ajay Piramal has rightly said (Business Standard) Growth through mergers and acquisitions (M&A) has its own purpose in a strategy and M&A is a key corporate-growth strategy. Our M&A has never been a shot in the dark but a well thought-out option in a basket of corporate development initiatives where we have grown sales and earnings at above-projected growth rates, unlike much of the industry. Having acquired, one must integrate "" efficiently and quickly "" in order to derive benefits.

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