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A study on equity research of selected pharmaceutical companies listed on NSE.

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INTRODUCTION:

Nowadays financial management in industry is becoming more critical because business as well as company sustainability is affected by the productivity of the people and their knowledge. Financial accounting is amongst others Key criteria for assessing a company's productivity and liquidity positions. Professionals in equity analysis are responsible for generating analyses, opinions and analyses on investing prospects that may benefit investment firms, investors or their customers.

The key aim of equity research is to offer comprehensive financial analyses and advice to investors about whether to buy, retain or sell a specific investment.

Equity research analysts monitor the market and analyse the market trend and their effects on companies and stocks. In spite of its name, the Equity Research manages commodities and bonds, offering macroeconomic perspectives and subsidiaries examination when required by working together with the subordinate’s division of the financier firm.

HISTORY:

The pharmaceutical industry in India was valued US$33 billion in 2017 and generic drugs were account for 20 per cent of the global exports in terms of volume, making the country the largest provider of generic medicines in the global market. According to the Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, the domestic pharmaceutical market turnover had reached Rs 129,015 crore (US$18.12 billion) in 2018, growing at 9.4 per cent year-on-year and the exports revenue was US$17.28 billion in FY18 and US$19.14 billion in FY19.Pune, Hyderabad, Mumbai, Baddi, Himachal Pradesh, Chennai, Bangalore, Ahmedabad, Vadodara, Ankleshwar and Sikkim Kolkata are the major pharmaceutical hubs of India.

PURPOSE:

The purpose of the research paper is to review the historical financial performances of the selected companies and to forecast its future financial performance. This research will also observe the effect of company's earnings and their stock value and to suggest a suitable company from selected pharma companies to add in the portfolio of investors.

RESEARCH METHODOLOGY

- **Research Design**: - Secondary research methodology involves using already existing data. Existing data is summarized and collated to increase the overall effectiveness of research. The study is based on secondary data which has been derived and calculated upon the published annual reports by the respective companies. The financial performance of the companies has been studied with the help of fundamental analysis. I have undertaken secondary data for the research via research papers, articles and company's financial statements for the past 5 years.
- **Data Source**: - in order to get authentic data, the financial reports published by the companies have been used.

DATA ANALYSIS AND INTERPRETATION:

- The three companies that are analysed on the basis of the financial statements and also a comparison is made between them. evidently the important ratios for the pharma industry are -Current Ratio, Quick ratio, Inventory ratio, Earnings per share, return on equity return on capital employed, debt to equity ratio etc.
- The present study undertaken in this research is solely based upon the secondary data which is obtained from the annual reports of the respective companies the period ranging from 2015-2020. The scope of this research is taken in respect to three companies namely Cipla, Lupin and Sun Pharma. The reason being that this companies are highly competitive, very much in demand, represent the pharma sector effectively and also enjoying a huge market share of the same sector.

RATIOS OF THE COMPANIES

CIPLA

1. CURRENT RATIO: -

YEAR	CR
2015-16	2.19
2016-17	2.48
2017-18	2.91
2018-19	4
2019-20	3.45

Interpretation: - From the above ratios we can interpret that the Covid-19 has made an impact in the current asset of the company so that is why it went down in the year 2019-2020.

2. QUICK RATIO:

YEAR	QR
2015-16	1.2
2016-17	1.44
2017-18	1.79
2018-19	2.79
2019-20	2.29

Interpretation: - From the above ratios we can interpret that the covid-19 has made an impact in the current asset but only in stock and since stock is deducted from current asset. So, from the ratios of the company we can say that in the year 2019-2020 there is no change in the ratio.

3. DEBT-EQUITY RATIO:

YEAR	DEBT-EQUITY
2015-16	0.09
2016-17	0.03
2017-18	0.01
2018-19	0.35
2019-20	0.05

Interpretation: - From the above ratios we can interpret that the debt-equity ratio of the company is good, since it is below 1.

4. NET PROFIT MARGIN (%): -

YEAR	NP
2015-16	12.06
2016-17	9.05
2017-18	12.89
2018-19	15.26
2019-20	18.31

Interpretation: - From the above ratios we can interpret that the NP Margin is increasing in the company despite the fact that the last quarter that is quarter 4 of 2019-2020 might get affected due to covid-19.

5. EARNINGS PER SHARE: -

YEAR	EPS
2015-16	18.21
2016-17	12.13
2017-18	17.53
2018-19	18.97
2019-20	19.19

Interpretation: - From the above ratios we can interpret that the EPS of the company is still increasing from the last 3 years which is a good sign for the investors.

6. INVENTORY TURNOVER RATIO: -

YEAR	ITR
2015-16	4.15
2016-17	4.06
2017-18	3.75
2018-19	4.13
2019-20	3.91

Interpretation: - From the above ratios we can interpret that the Inventory ratio has decreased in the year 2019-20. This has happened due to covid-19, which has affected the last quarter of 2019-20.

7. RETURN ON CAPITAL EMPLOYED (ROCE %): -

YEAR	ROCE
2015-16	11.9
2016-17	9.39
2017-18	13.93
2018-19	15.63
2019-20	16.86

Interpretation: - From the above ratios we can interpret that the ROCE has been increasing from the last 3 years. Hence, we can say that this is a good sign for the investors to invest in the company.

8. RETURN ON EQUITY (ROE %): -

YEAR	ROE
2015-16	12.2
2016-17	7.61
2017-18	10.4
2018-19	11.96
2019-20	13.32

Interpretation: - From the above ratios we can interpret that the ROE has been increasing from the last 3 years. Hence, we can say that this is a good sign for the investors to invest in the company

LUPIN

1. CURRENT RATIO: -

YEAR	CR
2015-16	3.71
2016-17	3.61
2017-18	3.73
2018-19	4.75
2019-20	4.24

Interpretation: - From the above ratios we can interpret that the covid-19 has made an impact in the current asset of the company so that is why it went down in the year 2019-2020.

2. QUICK RATIO: -

YEAR	QR
2015-16	2.73
2016-17	2.78
2017-18	2.8
2018-19	3.59
2019-20	3.27

Interpretation: - From the above ratios we can interpret that the covid-19 has made an impact in the whole current asset including stock and since stock is deducted from current asset. So, from the ratios of the company we can say that in the year 2019-2020 there is a slight change in the ratio.

3. DEBT-EQUITY RATIO: -

YEAR	DEBT-EQUITY
2015-16	0.03
2016-17	0.04
2017-18	0.06
2018-19	0.08
2019-20	0.38

Interpretation: - From the above ratios we can interpret that the debt-equity ratio of the company is good, since it is below 1.

4. NET PROFIT MARGIN (%): -

YEAR	NP
2015-16	25.23
2016-17	24.87
2017-18	13.33
2018-19	13.55
2019-20	6.59

Interpretation: - From the above ratios we can interpret that the NP Margin is decreasing in the company significantly. This might have happened due to covid-19.

5. EARNINGS PER SHARE:

YEAR	EPS
2015-16	62.92
2016-17	69.63
2017-18	29.76
2018-19	34.03
2019-20	16.07

Interpretation: - From the above ratios we can interpret that the EPS of the company is decreasing at a high rate in the year 2019-20 which is not a good sign for the investors.

6. INVENTORY TURNOVER RATIO: -

YEAR	ITR
2015-16	5.86
2016-17	5.94
2017-18	4.62
2018-19	4.92
2019-20	4.44

Interpretation: - From the above ratios we can interpret that the Inventory ratio has decreased in the year 2019-20. This has happened due to covid-19, which has affected the last quarter of 2019-20.

7. **RETURN ON CAPITAL EMPLOYED (ROCE %): -**

YEAR	ROCE
2015-16	23.05
2016-17	27.53
2017-18	11.17
2018-19	15.36
2019-20	10.28

Interpretation: - From the above ratios we can interpret that the ROCE has been decreased in the last year 2019-20. Hence, we can say that this is not a good sign for the investors to invest for short term in the company.

8. **RETURN ON EQUITY (ROE %): -**

YEAR	ROE
2015-16	23.76
2016-17	21.25
2017-18	8.51
2018-19	8.98
2019-20	4.16

Interpretation: - From the above ratios we can interpret that the ROE has got decreased at a high rate. Hence, we can say that this is not a good sign for the investors to invest in the company for a short-term period.

SUN PHARMA

1. **CURRENT RATIO: -**

YEAR	CR
2015-16	0.6
2016-17	0.58
2017-18	0.76
2018-19	0.84
2019-20	1.07

Interpretation: from the above given data the current ratio has increased since 2015 with a steady rise. It depicts the increase in the liquidity position of the company for 5 years.

2. **QUICK RATIO**: -

YEAR	QR
2015-16	0.36
2016-17	0.37
2017-18	0.59
2018-19	0.63
2019-20	0.83

Interpretation: From the above given data the ratio has increased since 2015 showing a good picture of immediate liquidity.

3. **DEBT TO EQUITY RATIO: -**

YEAR	DEBT-EQUITY
2015-16	0.26
2016-17	0.23
2017-18	0.3
2018-19	0.26
2019-20	0.24

Interpretation: - The debt to equity ratio has remain almost the same past 5 years but the ratio is at a good stage where it is below 1.

4. **NET PROFIT MARGIN(NP): -**

YEAR	NP
2015-16	-14.09
2016-17	-0.29
2017-18	3.39
2018-19	7.92
2019-20	25.62

Interpretation: - the net profit margin has shown a great increase from negative position to a good positive position. And the highest increase is seen in 2019-2020 as compared to other years.

5. **EARNINGS PER SHARE (EPS): -**

YEAR	EPS
2015-16	-4.5
2016-17	-0.1
2017-18	1.3
2018-19	3.4
2019-20	13.4

Interpretation: - the earnings per share have also shown a good increase since 2015 having the highest eps in 2019-2020.

6. **INVENTORY TURNOVER RATIO: -**

YEAR	ITR
2015-16	3.57
2016-17	3.33
2017-18	4.22
2018-19	3.69
2019-20	4.76

Interpretation: - The fluctuation has remained minimum past 5 years under this ratio and current ITR is higher than 2018-19.

7. **RETURN ON CAPITAL EMPLOYED(ROCE): -**

YEAR	ROCE
2015-16	18.83
2016-17	21.12
2017-18	10.83
2018-19	10.87
2019-20	10.54

Interpretation: - The return on capital employed has decreased and is quite constant in 2018-19 and 2019-20.

QUARTER WISE SALES TURNOVER (IN CRORES)

CIPLA

	CIPLA (FY 2018-2019)
Q1	2,987.57
Q2	3,094.71
Q3	2,835.20
Q4	3,456.53

	CIPLA (FY 2019-2020)
Q1	3,229.33
Q2	3,370.18
Q3	2,926.20
Q4	3,133.34

Interpretation: - From the above turnover we can say that despite having covid-19 effects in the last quarter the company's sale is still increasing which is a good sign.

LUPIN

	LUPIN (FY 2018-2019)
Q1	2,579.11
Q2	2712.55
Q3	3092.8
Q4	2971.86

	LUPIN (FY 2019-2020)
Q1	2,940.80
Q2	2885.36
Q3	2715.9
Q4	2483.88

Interpretation: - From the above turnover we can say that the company's turnover has hampered in the last quarter. This is due to covid-19 effect in the country.

SUN PHARMA

	FY 2018-2019
Q1	6711.01
Q2	7138.83
Q3	6846.48
Q4	7656.71
	FY 2019-2020
Q1	7044.26
Q2	8259.30
Q3	7949.19
Q4	8038.65

Interpretation: - From the above given data, the last quarter has shown an increase in 2018 as well as in 2019 though the overall turnover has increased in 2019 from 2018.

LITERATURE REVIEW:

An Empirical Study of Pharmaceutical Sector in India discusses.

Dr Manjula Shastri

the number of Indian pharma companies is fairly less as compared to foreign companies operating in India due to the availability of cheap labour. According to a study in 2002, 85% the entire manufacture was sold in India whereas 60% was exported to other countries. This study helps to identify the prominent stocks amongst the leaders in the pharma sector of which the performance will be analysed as per the technical and fundamental techniques of the historic prices.

Equity Research Analysis on LUPIN Ltd.

Ritesh Jaiswal

explains the overall of fundamental as well as the technical assessment of the pharma company LUPIN Ltd. The opportunities, challenges and market share in the industry which the company was facing as well as the percentage growth in the past 3 years has been mentioned in the report with appropriate details.

Fundamental analysis of Pharma sector.

Rejimon A.V., Deepak Ashokkumar and Madhusoodhanan C.K

An Empirical Analysis discusses the overall fundamental analysis of pharma sector in India by comparing 5 companies prominent in this sector. They have also performed the ratio analysis through which they arrived at certain conclusions

Fundamental Analysis of Indian Pharmaceutical Companies.

Dr Ashok Kumar Panigrahi, Raksha Sharma and Himani Dhande

According to Global Data Health Care, the article tells about the world who is suffering from the impact of Covid-19. Many businesses are experiencing losses, workers are without jobs and many faces the challenge of a complete sudden change in lifestyle. However, in the pharmaceutical sector there is a positive impact as they are trying to make the vaccine of this virus. Gilead and Eli Lilly, are seeing positive growth on the stock market. AstraZeneca (AZ) expects to see a decline in revenue due to China's current economic position. Other pharmaceutical companies are following the procedure during the Covid-19 pandemic and using their own capabilities to reduce the burden of coronavirus on their patients.

FINDINGS:

- The Cipla has kept some positive impact in the market after covid-19. The data analysis of the company shows that there is growth in profits, earning per share and debt equity ratio also maintain by the company. Profit ratio show that company can perform better in future. Debt of the company is less and this can put positive impact on the company that there is no need to be bankrupt. Investor can buy share or go for option trading; this will help the company to grow.
- The Lupin has shown some negative impact in the market after covid-19. The data analysis of the company shows that there is decline in profit %, earning per share and debt equity ratio. But the company can perform better in future. Debt of the company is less and this can put positive impact on the company that there is no need to be bankrupt. Investor can buy share or go for option trading; this will help the company to grow.
- The Company has kept some positive impact in the market after covid-19. The data analysis of the company shows that there is growth in profits, earning per share and debt equity ratio also maintain by the company. Profit ratio show that company can perform better in future. Debt of the company is less and this can put positive impact on the company that there is no need to be bankrupt. Investor can buy share or go for option trading; this will help the company to grow

CONCLUSION:

- After a thorough ratio analysis of the company's fundamentals, the opportunities and challenges faced by the selected pharma companies the fundamental ratio analysis was done.
- Macroeconomic parameters like GDP growth, consumers spending and changing interest rates does not affect the industry as medicines and drugs form the necessity rather than luxury.
- All the selected pharma companies have strong business fundamentals and business management expertise due to which all have shown continuous growth in last 5 years.
- The pharma sector in India has gained significant importance due to COVID-19 situation and also has received various foreign investments due to its capability to grow further. Also, long term valuation becomes easy with the above-mentioned analysis and can help the investor to choose among the various companies for their gains.

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