

IMPACT OF NEW GOVERNMENT POLICIES ON INDIAN PHARMA SECTOR- A CASE STUDY OF PRINCE SUPPLICCO

Saroj Vats & Ami Pandya

Associate Professor, Swami Sahajan and School of Management, Bhavnagar, Gujarat, India

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ABSTRACT

The manufacturing sector is always considered as backbone of an economy. Out of this Pharma, sector is much more important as health plays a key role in a human being's life. With the policy of past government, Indian Pharma sector has grown up very fast. It generates nearly 22.4 % of Indian GDP every year. There are nearly 8,174 small scales to large scale units which are working in Indian Pharma sector. It is the only sector which works on cost efficiency, growth and increasing investments through policy support

One would surely wonder when American cancer research institute is using drugs made in India. It makes people jealous as well as wonder. Almost all the big brands of international Pharma having their manufacturing unit in India, particularly in Gujarat. Indian Pharma sector invests nearly 8.8% of its sales into R&D, so the growth is also rapid.

This paper aims to understand the impact of the new government over Indian Pharma sector. Are the claims of new India and modinomics really helping in straightening on backbone? Are the SSI's in an industrial state of Gujarat really generating profits after a new government and its newly imposed policies?

KEYWORDS: *Pharma Sector, Generating Profits after a New Government*

INTRODUCTION

Indian Pharma industry is as old as Ramayana is. In Ramayana when Laxman was hit by the son of Ravan, Hanuman found sanjeevni and gets him alive. In Mahabharata also we find evidence of medicines. The younger Pandava, named Nakul and Sahdev were having expertise in medicine and animal husbandry. They were Ashwini Kumar means son of God who can heal anyone with medicines. Other than this in written form, we are having Ayurveda, which is a book containing details of procurement of deceases including cancer. Even today the Indian Pharma sector is among the best Pharma sector in the world. Amanta to Merck, all the international brands have their factories in Ahmedabad, Pune, and Hyderabad. A new hub for Pharma is solon, Himachal Pradesh. As per 2015 the growth rate of the Indian Pharma industry is expected the US \$ 20 Billion. Approximately 40% of the total pharmaceutical produce is exported. As per domestic demand, 70% bulk drugs is catered by the Indian Pharma Industry. India is exported approx. 40% in the Pharma industry. In India, nearly 8,174 different types of Pharma companies.

India's pharmaceutical companies are producing at the cost of production which is nearly 33 per cent lower than that of the US because Indian Labor costs are 50–55 per cent cheaper than in Western countries. Today the cost of setting up a production plant in India is 40 per cent lower than in what is required in Western countries. This Cost-efficiency continues to create opportunities for Indian companies in global emerging markets around the world. India has a skilled workforce as well as high managerial & technical competence in comparison to its peer's competitors in the Asian continent. India has the 2nd largest number of USFDA-approved manufacturing plants outside the US, Dr. Reddy's lab, Zydus, Sunpharma are among the few whom are largest exported of drugs to the USA. India has nearly 2,633 drug products which are approved by the FDA. Pharma sector is part of the manufacturing sector which is basically known as the backbone of the country. Out of India's total GDP Pharma is having a major share. Top Indian companies play a vital role in GDP.

Table 1

| Rank | Company | Revenue (USD Billion) |
|------|------------------|-----------------------|
| 1 | Sun Pharma | 196,557.52 |
| 2 | Lupin | 68,375.97 |
| 3 | Dr.Reddys Labs | 51,670.23 |
| 4 | Aurobindo Pharma | 45,183.87 |
| 5 | Cipla | 40,378.09 |

LITERATURE REVIEW

A report published by ASA& Associates, (2015), the Indian pharmaceutical sector is facing a tough time due to shareholders, regulators like government and a diversified market. Big Pharma companies are outsourcing research and development activities as an organization needs sustainable growth due to the price war in domestic as well as international market. In this paper, the vision of Narendra Modi related to the opening of janaushdhi store was also mentioned in this paper.

Anand & Nandkumar,(2015), Patent and competitive dynamics in the Indian Pharma industry, describes that India is an emerging market for intellectual property in the world of pharmacy. In comparison to US or Swiss companies, Indian companies provide better quality with operation efficiency.

Patil K D (2017), mentioned in his paper that Indian Pharma sector is having global prospects from China to Africa. FDI in the biotechnological field is attracting the other investors too as it is a promising sector. R& D makes it more aggressive. Undoubtedly the future is consistent and upsurge.

Saini & Bansal, 2017, depicted in their paper about liquidity analysis of selected pharmaceutical companies in India that Indian Pharma sector is struggling with liquidity. Except for the big sharks the small fishes are the easy target. They mainly operate in domestic peripheral. But working capital is a challenge for all of them as research and development in this sector is the need of the time.

Smith & McCormick, (2017), Turing pharmaceuticals: fair profit or price gouging in the drug industry, talks about effect of government regulations over price control and patent relationship. Even small companies do have patents and it plays a role in the net worth generation of a company. The paper raised the question of the international health industry and corporate social responsibilities of an enterprise. Monopolies in a pharmaceutical lead to contraction but high research as the lucrative price can be charged.

Inkpen, (2017), Tanner pharmaceutical and the price of a new drug, mentioned that a US-based company with Zorstat vaccine was accused of being greedy and insensible as it increased the price of its vaccine under price skimming policy. Though it was part of pricing strategy as a whole because Pharma sector is directly related to the life of people, so the issue was taken as whistleblower. It affected the share prices of the company.

RESEARCH METHODOLOGY

Research problem- new government policies affect the leverage of Indian Pharma companies?

Research Design

- Population – infinite
- Sample size – 1
- Type of sampling- Judgmental and convenient
- Sampling unit- Prince Supplio
- Time period- 4 years, (theYear 2014- 2018)
- Tools- operating and financial leverage
- Variable- profit
- Test- one sample T-test

Why Prince Supplio

Gujarat is known as the industrial state in India. All most all the type of business is available in Gujarat. Gujarati's and entrepreneurs are synonyms to each other. From the year 2017 India totally changes its tax system. They removed all indirect or direct taxes and give one tax which GST (goods and service tax). Before the GST different type of tax are applicable I different items but at present, all the raw material are included in a slab of 18% and 28%. If any company purchase secondhand bottle than 18% of GST will be applicable.

Pharma industry in Gujarat stepped up in the year 1907. Between 35 to 46% of shares in Pharma company is contributed by Gujarat. Jivraj Mehta (the first chief minister of Gujarat) initiated a rapid growth of Pharma industries in Gujarat which is visible from 1960. Companies in Gujarat saw a quantum leap in production in year 1990s and 2000s. Currently approx. 3500 drug manufacturing unit in Gujarat. The worth of the pharmaceutical industry in Gujarat is the US \$6.7 billion in 2015-2016. The export of Gujarat pharmaceutical industry is the US \$ 3.06 billion in 2015-16. 80% world's Ionized is produced in Gujarat. Almost all the big brands available in India as Ahmedabad Surat and Bharuch are a hub for producing Pharma based chemicals or total Pharma production. 60% of India's orthopedic implants are manufactured in Gujarat. As per the Gujarat government 3574 Pharma manufacturing licenses in Gujarat.

Leverage Analysis of Prince Supplco

Table 2

| Particulars | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| Sales | 19800000 | 22800000 | 25600000 | 28900000 |
| V.C | 3860000 | 3880000 | 3905000 | 3935000 |
| Contribution(Sales-V.C) | 15940000 | 18920000 | 21695000 | 24965000 |
| F.C | 8620000 | 8620000 | 8620000 | 8620000 |
| EBIT(Cont.-F.C) | 7320000 | 10300000 | 13075000 | 16345000 |
| Interest @ 12% | 600000 | 600000 | 780000 | 948000 |
| EBT(EBIT-Interest) | 6720000 | 9700000 | 12295000 | 15397000 |
| Tax @ 30% | 2016000 | 2910000 | 3688500 | 4619100 |
| EAT(EBT-Tax) | 4704000 | 6790000 | 8606500 | 10777900 |

Note: Loan

2014-15 = 5000000

2015-16 = 5000000

2016-17 = 6500000

2017-18 = 7900000

Degree of Operating Leverage = Contribution ÷ EBIT

Table 3

| Year | DOL(Times) |
|---------|------------|
| 2014-15 | 2.17 |
| 2015-16 | 1.83 |
| 2016-17 | 1.65 |
| 2017-18 | 1.52 |

Degree of Financial Leverage = EBIT ÷ EBT

Table 4

| Year | DFL(Times) |
|---------|------------|
| 2014-15 | 1.08 |
| 2015-16 | 1.06 |
| 2016-17 | 1.06 |
| 2017-18 | 1.06 |

HYPOTHESIS TESTING

H0: there is no impact of new government policies over Indian Pharma SMEs exports.

H1: there is an impact of new government policies over Indian Pharma SMEs exports.

Table 5

| One-Sample Statistics | | | | |
|-----------------------|---|--------|----------------|-----------------|
| | N | Mean | Std. Deviation | Std. Error Mean |
| Operating Leverage | 4 | 1.7925 | .28194 | .14097 |

Table 6

| One-Sample Test | | | | | | |
|--------------------|----------------|----|-----------------|-----------------|---|--------|
| | Test Value = 0 | | | | | |
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Operating Leverage | 12.715 | 3 | .001 | 1.79250 | 1.3439 | 2.2411 |

Interpretation of T Test

$$T = 12.715 \text{ \& } t_{0.05} = 3.182$$

$$T > t_{0.05}$$

Null Hypothesis is Rejected

Table 7

| One-Sample Statistics | | | | |
|-----------------------|---|--------|----------------|-----------------|
| | N | Mean | Std. Deviation | Std. Error Mean |
| Financial Leverage | 4 | 1.0650 | .01000 | .00500 |

Table 8

| One-Sample Test | | | | | | |
|--------------------|----------------|----|-----------------|-----------------|---|--------|
| | Test Value = 0 | | | | | |
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Financial Leverage | 213.000 | 3 | .000 | 1.06500 | 1.0491 | 1.0809 |

Interpretation of T-Test

$$T = 213 \text{ \& } t_{0.05} =$$

$$T > t_{0.05}$$

Null Hypothesis is Rejected

RESULTS & FINDINGS

- Yes, there is an impact of new government policies in the Pharma sector, especially to the SMEs.
- Operating Leverage magnifies the effect of changes in sales on its EBIT.
- Year by year sales increases & therefore EBIT increases.
- From the year 2014-15 to 2017-18 the DOL is constantly decreasing & the lower DOL the better it is for the Business.
- Financial Leverage measures the impact of Interest Expense.
- The Interest Expenses are high but still year by year the sales are increases & therefore EBIT is also increased.
- For the year 2014-15, the DFL is 1.08
- 2015-16 the DFL is 1.06
- 2016-17 the DFL is 1.06

- 2017-18 the DFL is 1.06
- For consecutive 3years the DFL remains constant which states that the firm's Financial leverage is stable & it is good for the Business.
- GST is having its important role after GST FL decreases.

Limitations of the Study

We have taken data for only for 4 years just to show the impact of. This project is aimed to see the impact of only SMEs of Pharma sectors. The sample size is also limited. The impact on other sectors is not counted. The data is related to the company which is majorly exporting.

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The data was collected through personal interview. No audited sheet was given in hard or soft copy due to Private Sector Company.

CONCLUSIONS

Indian Pharma Companies need to evolve as Innovators. Big scale companies can revive their price & their exports are also high but small scale companies cannot do so. Therefore the Government should reframe the policy for the SMEs. A government should make space for SMEs in the domestic market. A government should provide subsidies which help the SMEs to boost their Exports. Most of the Indian Pharma Exports are to the USA, UK, and EU so the Government should encourage the exports to South Asian Countries.

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