Chapter 15
Linkage between Efficiency of Assets Management and Profitability in Selected Companies in Pharmaceutical Industry

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ABSTRACT

This chapter empirically investigates the relationship between the efficiency of asset management and profitability of the Indian pharmaceutical industry during the period 2002-03 to 2011-12. The chapter also tries to make a comparison, in respect of the efficiency of assets management, between multinational and domestic companies in the Indian pharmaceutical industry during the same period. The sample size of the study consists of 20 pharmaceutical companies by taking 10 multinational and 10 domestic companies from the Indian pharmaceutical industry. The issues analyzed in this study have been tackled using relevant statistical tools and techniques.

1. INTRODUCTION

In today’s challenging and competitive business environment, the matter of designing appropriate strategies for improving efficiency of assets management in accomplishing the wealth maximization objective of corporate is of utmost importance. The way in which assets are managed can have a considerable impact on profitability of the company. The efficiency with which assets are managed is gleaned from turnover ratios. In fact, it is an empirical question whether a high value of turnover ratio has a positive influence on the company’s earning capacity. Virtually no study has so far been made on this unresolved issue considering both multinational and domestic companies of the Indian pharmaceutical sector. However, Indian pharmaceutical industry has experienced stunning changes due to India’s signing of Trade Related Intellectual Property Rights System. In this
backdrop, the present study seeks to analyze the relationship between efficiency of assets management and profitability of Indian pharmaceutical industry during the period 2002-03 to 2011-12. Besides this, the paper has also made a modest effort to compare the relationship between efficiency of assets management and profitability of multinational companies with that of the domestic companies of the Indian pharmaceutical industry during the same period.

2. OBJECTIVES OF THE STUDY

- To study the relative efficiency-profitability status of the selected companies.
- To measure the extent of relationship between efficiency of cash management and profitability, between efficiency of inventory management and profitability, between efficiency of debtors management and profitability and between efficiency of fixed assets management and profitability of the selected companies and to compare the said matters of the multinational companies with that of the domestic companies in Indian pharmaceutical sector.
- To assess the joint effect of cash management, inventory management, debtors management and fixed assets management of the selected multinational and domestic companies on their earnings performance as well as to compare the said matter of multinational companies with that of domestic companies under study.

3. METHODOLOGY OF THE STUDY

The study is based on twenty (consisting of ten multinational and ten domestic companies) pharmaceutical companies which have been selected from Indian pharmaceutical sector following purposive sampling procedure. While making this selection, net sales revenue has been considered as the selection criterion. The selected ten multinational and ten domestic companies have been listed in Appendix 1. The data of the selected companies for the period 2002-03 to 2011-12 used in this study have been taken from secondary sources i.e. Capitaline Corporate Database of Capital Market Publishers (I) Ltd. Mumbai. For analyzing the data in this study, simple mathematical tools like percentages, averages, ratios have been used. The ratios relating to the measurement of efficiency of assets management which have been used in this study are: (a) cash turnover ratio (CTR), (b) inventory turnover ratio (ITR), (c) debtors turnover ratio (DTR) and (d) fixed assets turnover ratio (FATR). The profitability measure which has been selected for this study is return on capital employed (ROCE). In order to measure the performance in respect of efficiency in assets management more precisely a comprehensive rank test considering average values of the above mentioned indicators of the assets management have been made. The degree of relationship (high, medium or low) between each of the efficiency indicators of assets management and profitability have been assessed through correlations between the selected measures of efficiency in assets management and profitability. For studying the joint influence of the selected measures relating to the efficiency of assets management on the overall profitability, multiple correlation and multiple regression techniques have been applied. In order to examine whether the computed values of partial regression coefficients are statistically significant or not, t test has been used. The multiple correlation coefficients have been tested by F test.

4. FINDINGS OF THE STUDY

1. In this section the overall efficiency of assets management and profitability of the selected multinational companies has been compared with that of the selected domestic companies
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