CHAPTER VII FINDINGS AND CONCLUSIONS

The study in general aims at studying the impact of dividend policy on shareholders’ wealth of selected pharma units in India. This study covers eleven companies viz., Alembic Chemicals, Cadila Healthcare, Cipla, Dr. Reddy’s, Lupin Labs, Nicholas Piramal, Ranbaxy Labs, Orchid Chemical and Pharmaceuticals, Sun Pharmaceuticals, Torrent Pharma and Unichem Labs. The period covered under the study extends over eight years from 2001-02 to 2008-09. The data for the study were taken from Annual reports of the company, Further information has been collected from “PROWESS” database of CMIE, RBI bulletin, Annual Survey of Industries, Reports of Association of companies, Institute of Chartered Financial Analyst, Institute of Financial Management and Research, Libraries of various Institutions, various magazines, journals, research publications, dailies and periodicals such as Economic Times, Applied Finance, Financial express, Fortune India, Investment Today, Capital Market, Dalal Street, Business Today, Business World, Business India, Finance India, web site of organizations, consultants’ reports etc.

It employed various accounting techniques such as trend analysis and determinants of shareholders’ wealth. With a view to accomplishing the objectives of the study, various statistical tools such as mean, co-efficient of variation, regression analysis, analysis of variance and Kruskal-Wallis test etc. have been employed. Present chapter symbolizes the major findings of the study and offers a few suggestions for efficient management of the pharmaceutical companies under the study in India.
7.1 Findings

1. With a view to analyse the first research objective, analysis of dividend payout ratio of the companies under the study has been made. Analysis of dividend trend revealed that mean of the dividend pay-out ratio was in the range of 20-65 percentage. Ranbaxy had the highest Mean of Dividend Pay Out as compared to the rest of the companies under the study. It has been observed that dividend payout has increased as per the expectation and the fitted linear regression is significant and hence it can be used for the prediction of dividend payout. Orchid, Alembic, Dr Reddy’s and Ranbaxy had observed greater fluctuations in their Dividend Pay Out. Lupin had also observed comparatively high fluctuations in its Dividend Pay Out. The rest had moderate fluctuations therein. It is evident from results of ANOVA that null hypothesis is accepted and alternate hypothesis is rejected in eight out of eleven selected companies. This divulges that the difference between the actual dividend payout and trend values of dividend pay-out during the study period were not significant in all the selected companies under the study. It is interesting to note from the result of Kruskal Wallis that the null hypothesis is rejected and hence there exists significant difference in dividend payout of the selected pharma players in India. It can be concluded that the mean of the dividend pay-out ratio in the range of 20-65 percentage reflects increase as
per expectation and availability of good return to the shareholders as well as growth and sound profitability of pharma industry in India.

2. With a view to analyse the second research objective, analysis of net worth of the companies under the study has been carried out. It has been observed that Dr Reddys had the highest Mean of Net Worth as compared to the rest of the companies under the study, followed by Ranbaxy, Cipla, Sun, Cadila, Piramal, Orchid, Torrent, Unichem, Alembic and Lupin. Higher Mean reflects growth and sound profitability of pharma industry in India and hence accumulation of wealth for the shareholders. It has been observed that net worth has increased as per the expectation and the fitted linear regression is significant and hence it can be used for the prediction of net worth. It is found that Sun had the highest CV which suggests greater fluctuation in Net Worth. Similarly, Cipla, Unichem, Piramal, and Dr Reddy’s had observed greater fluctuations in their Net Worth i.e. over 50 percentage. Torrent had also observed comparatively high fluctuations in its Net worth i.e. over 40 percentage. The rest had moderate fluctuations therein. CV in the range of 30-60 percentage reveals that the Indian pharma industry is burgeoning one and hence it is good for the shareholders. It is evident from results of ANOVA that null hypothesis is accepted and alternate hypothesis is rejected in all eleven selected companies. This divulges that the difference between the actual net worth and trend values of net worth during the study period were significant in all the selected companies under the study. It is
interesting to note from the result of Kruskal Wallis also confirms that the null hypothesis is rejected and hence there exists significant difference in net worth of the selected pharma players in India.

3. With a view to analyse the third research objective, the impact of explanatory variables on shareholders’ wealth has been studied. It is found that all the companies under the study have negative correlation between shareholders’ wealth and profitability except Cadila and Orchid and hence profitability does not show positive correlation with shareholders’ wealth of the pharma players under the study. Six out of eleven selected pharma companies under the study have negative correlation between shareholders’ wealth and liquidity which shows that liquidity can influence the shareholders’ wealth positively. Similarly, Six out of eleven pharma players under the study observe the negative correlation between shareholders’ wealth and solvency which reflects that change in solvency can encourage shareholders’ wealth. As far as EPS is concerned, six out of eleven companies under the study has positive correlation between shareholders’ wealth and EPS which highlights that higher EPS tends to increase shareholders’ wealth of the pharma players under the study. Correspondingly, Dividend Pay-Out ratio of only three pharma players out of eleven has positive correlation with shareholders’ wealth. It reveals that Dividend Pay-Out Ratio has greater impact on Shareholders’ Wealth. Five pharma players under the study shows positive correlation between
shareholders’ wealth and growth of turnover which reflects that growth in turnover can positively influence shareholders’ wealth. Even the regression analysis result of the Shareholders’ wealth function of pharma players confirms significant relationship between Shareholders’ Wealth and selected independent variables. From the various determinants of the Shareholders’ wealth under the study, it is clear that all the independent variables taken affect the dependent variable by one or the other way. As far as profitability is concerned, the study found that change in profitability in eight out of eleven players cause decrease in shareholders’ wealth. It shows that shareholders’ wealth is adversely affected because of change in profitability. Change in liquidity is observed to have positive impact on shareholders’ wealth of the companies under the study because in case of four companies only decrease in shareholders’ wealth due to alteration in liquidity is noticed. In case of six companies under the study, it is observed that change in solvency affects the shareholders’ wealth unfavourably which reveals that solvency is a determinant that influences the shareholders’ wealth of the pharma industry adversely. EPS is observed to be the strongest variable which influences shareholders’ wealth of the companies under the study positively because change in EPS in case of seven companies under the study is observed to have positive impact on shareholders’ wealth. As far as impact on dividend pay-out ratio on shareholders’ wealth is concerned, it is observed that shareholders’ wealth of five companies is affected positively.
due to change therein. Likewise, change in growth of turnover also results into increase in shareholders’ wealth of the five players under the study.

4. While analysing the fourth research objective, the dividend policy of the companies under the study has been found satisfactory. Increase in dividend payout ratio as per expectation and availability of good return to the shareholders have reflected growth and sound profitability of pharma industry in India.
7.2 Suggestions

Keeping in view the above observations and other surveillances made throughout the study, the following measures are suggested which would go a long way with a view to improving performance of pharma players of India in general and selected pharma players in particular.

1. It is found from the study that payment of dividend has significant effect on shareholders’ wealth in pharma players in India. As the companies under the study are paying the dividend regularly with periodic enhancement, the shareholders wealth would be higher. Therefore, it is suggested that the pharma companies under the study should continue to have policy of periodical enhancement in paying the dividend.

2. Pharma players in India are suggested to implement steadily changing dividend policy. Under this policy, when a company retains earnings in good years for this purpose, it earmarks this surplus as dividend equalisation reserve. These funds are invested in current assets like marketable securities, so that they may easily be converted into cash at the time of paying dividends in bad years.

3. Some shareholders favour dividends from the tax perspective, even though they lack the advantages associated with deferral in case of rising share price because they prefer the flexibility that come with cash dividend payment. Moreover, they evaluate retained earnings as a risky
promise. Hence, it is suggested to have steady enhancement in dividend in pharma industry in India because this liquidity allows investors to more easily manage their financial affairs.

4. Retained earnings act as an important factor in determining the shareholders’ wealth in pharma industry in India. The increase in retained earnings leads to increase in net worth (Book Value of equity) of the shareholders. There would be large volume of shareholders inflow for which they would be prepared to repurchase the shares by paying premium. Therefore, young and aggressive pharma companies in India should have low payout ratios and plough back their profits for growth because they have adequate profitable investment opportunities to earn at a higher rate than what the investors expect.

5. From the analysis of various Explanatory variables i.e. profitability, liquidity, solvency, EPS, Dividend Pay-Out ratio and growth of turnover, it is clear that their overall impact on shareholders’ wealth of the pharma players in India has been positive except profitability. Therefore, pharma players in India are suggested to carry out rapid and material measures to control material cost with a view to increasing profitability. It is suggested to have centralised purchasing and storekeeping system so as to get the benefits of discounts, to reduce capital investment after materials and to maintain consistent buying policies such as terms of payment, packing, marking etc. It is also suggested to have optimum product mix
with a view to minimise the total cost of sales and maximise the profitability. It is suggested to control all variable and normal overheads involved in manufacturing process through preparation of flexible budgets. It is suggested to implement policy of recruitment and selection of right type and required number of employees to control personnel expenses to satisfactory level through increase labour productivity. In order to have a balanced control over selling expenses, it is suggested to analyse selling expenses on the basis of nature, product and territory and then to compare with selling expenses of the previous years so as to identify the trend to take actions to control them.

6. With a view to help in decision making whether to distribute or retain the profit, pharma players in India are suggested to calculate the ratio of rupee profits, the business expects to earn (Ra) to the rupee profits that the shareholders can expect to earn outside (Re) i.e. Re/Ra. If the ratio is less than one, it is a signal to distribute dividend and if it is more than one, the distribution of dividend will be discontinued.

7. With a view to improve corporate governance in pharma industry in India by offering investors clear signal about a company’s future financial health and by imposing discipline on corporate manager; pharma players in India are suggested to maintain proper combination of the share price and dividend payment because retention of earnings would adversely affect the market price of the shares.
7.3 Scope for Further Research

Every attempt has been made to make the study intensive but due to lack of time and resources there exists certain gaps in the present study. Therefore, further work may be undertaken to bridge the gap so as to enhance the scope of analysis. The coverage of this study is limited to only eleven companies. It can further be extended. Data for the purpose of analysis have mainly been collected from secondary resources having certain own limitations. Further research work in abovementioned areas would be of great practical significance and would throw more light on the operation of pharmaceutical industry in India. The present study has examined the effect of dividend policy on shareholders’ wealth in pharma companies in India. The analysis has produced some meaningful inferences and results and one possibility for future research is to extend the investigation to other sector and among the cross section. It may be interesting to conduct a similar study in order to determine whether importance of retained earnings on shareholders’ wealth has increased over a period of time. Further study can be conducted to the impact of market value on shareholders’ wealth and dividend policy on market value too.