AN ANALYSIS OF THE DEBT EQUITY STRUCTURE OF SELECTED PHARMACEUTICAL FIRMS IN INDIA

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ABSTRACT
Capital structure is one of the most prolific domains of research in corporate finance. An unplanned capital structure may often lead to failure and bankruptcy of a firm. Considering the importance of debt -equity mix as an important decision in the overall performance of firms, the present study tried to examine, analyze and discover the industry benchmark and scrutinize how capital structure plays a momentous role in the company's overall growth. The financial results of the various pharmaceuticals firms has been considered and concluded that leverage seems to be working in favour of the few firms while moving in opposite direction for the other firms. Firms that have been moderately geared are able to generate good returns to shareholders (ROE). The reassessing the debt-equity mix would result in better financing decisions and enhances financial performance for other firms. Besides new ROE have also been calculated and findings confirmed that the firm generating highest ROE is same. In order to evaluate more realistically the firm's performance, market capitalization can also be a true barometer. The movement in stock prices may also be one of the factors that affect the investor decision making. Despite low ranking in ROE for few firms, they are quiet popular among the investors. Further, the findings reached to the conclusion that the results of market prices and market capitalization combined with ROE can provide useful information for the firm's overall performance.

Key words: Capital Structure, Firm Performance, Leverage, Return on Equity, Capital Gearing, Profitability.

1. INTRODUCTION

Capital Structure has attracted intense debate and scholarly attention in the financial management arena. One of the central issues in both the theory and practice of financial management arena is the problem of determining the optimal capital structure of he firm. . As capital structure is considered as one of the important determinant of firm's success, the firm's choice of capital structure remains a complicated issue considering the unexplained financing behavior Myers, (1984). There has been considerable debate regarding the relationship between capital structure and firm's value, theoretically as well as empirically. The pioneering study on the irrelevance proposition introduced by Modigliani and Miller(1958,1963) shows that firm's value is independent of its capital structure in case of perfect market, without taxes and transaction cost. The Modigliani and Miller perspective has been supported by other researchers such as Hamada (1969) and Stiglitz (1974). But, even after 50 years we have still not truly identified and clarified the relationship existing between capital structure and firm's value Myers (1993, 2001).There has been little empirical research that analyzed the usefulness of leverage in equity valuation Giner and Reverte, (2001).

The determination of optimal capital structure is regarded as an integral part of the financing decisions. The other major issue encountered today is not only related to the procurement of funds but meaningful deployment only can lead to maximization of shareholder wealth. A important financial decision facing firms is the choice between debt and equity capital Glen and Pinto, (1994).Capital Structure,

which is defined as total debt to total assets at book value, influences both the profitability and riskiness of the firm Bos and Fetherston, (1993).This paper aims to analyze the debt- equity structure of selected manufacturing sector firms (Pharmaceutical sector) in India and its impact on their overall profitability. The study makes a departure from linear theory and establishes a cubic relationship between capital structure and financial leverage and its impact on the firm's value.

Since the seminal work of Modigliani &Miller (1958), much subsequent research has been devoted to task of finding a coherent explanation for what influences the choice of capital structure. The Modigliani and Miller perspective has been supported by other researchers such as Hamada (1969) and Stiglitz (1974), Myers(1984) pointed that how firm actually chose their capital structure remains a puzzle as the theories developed did not seem to explain fully actual financing behavior. Harris and Raviv (1991) pointed out that the numerous attempts to explain capital structure proved to be inconclusive.

Titman & Wessels (1988); Glen &Pinto (1994), indicate that a firm's capital structure decisions are affected by several firm related characteristics such as future growth options, earning volatility, profitability and control. Jensen& Meckling (1976); Williamson (1988); Harris &Raviv(1990);Rajan and Zingales (1995) have explained factors influencing capital structure from the perspective of asymmetric information and agency cost. Scott and Martin (1976) ; Ferri and Jones 1979; Booth et.al. (2001) pointed out that firm size has been found to be a factor in determining capital structure. Boquest & Moore (1984) did not find firm size to be a contributory factor.

Giner & Reverte(2001) noted little empirical research has analyzed the usefulness of leverage in equity valuation. Harris and Raviv (1991) suggest that capital structure is directly affected by the industry in which a firm operates. They also noted that persistence difference exist in industry debt ratios over time and also further argued that firms existing in an industry has similar characteristics than with firms in different industries. Further, it is also been pointed out that several attempts made to explain optimal capital structure have proved to be inconclusive.

Boquist and Moore's (1984) findings did not support the tax shield hypothesis at the firm level, however, weak evidence were quiet visible in support of the theory at the industry level.Lewis (1990) asserted that taxes do not affect optimal capital structure if optimal debt assets ratios and debt maturity structure are chosen simultaneously.

Kim and Mauer (1997) explains about tax, industry capital structure and priority structure of debt which provides that there is higher total leverage (the optimal amount of senior debt is decreasing in firm value variance while the optimal amount of junior debt is increasing in firm value variance).

The concept of optimal capital structure is also expressed by Myers (1984) and Myers and Majluf (1984) based on the notion of asymmetric information. The existence of information asymmetries between the firm and likely finance providers causes the relative costs of finance to vary between the different sources of finance. They further maintain that firms would prefer internal sources to costly external finance. Thus, according to the pecking order hypothesis, firms that are profitable and therefore generate high earnings are expected to use less debt capital than those that do not generate high earnings. Several researchers have tested the effects of profitability on firm leverage. Friend and Lang (1988) and Kester (1986) find a significantly negative relation between profitability and debt/assets ratios. Rajan and Zingales (1995) and Wald (1999) also confirm a significantly negative between profitability and leverage.

However, a number of reasons have been given with respect to the fact that the industry in which a firm operates will have a significant impact on its capital structure. Titman (1984) argues that the firm will choose a level of leverage that will maximize its liquidation cost. It is also hypothesized that if the probability of liquidation of a firm increases, this will reduce its current income stream. A priori, this suggests that there will be inter-industry differences in leverage across industries, as firms producing more specialized the products seek a level of leverage to help offset their lower liquidation costs, ceteris paribus(Prasad et al.,2001).It stands to reason that firms operating in different industries will exhibit different levels of debt in their capital structure. Harris and Raviv (1991) suggest that the industry in which a firm operates does affects its capital structure directly. They argue that firms within an industry have more in common with ach other than with firms in different industries and that there has been a persistent difference in industry debt ratios over time. This paper focuses on debt to explain firm value and total leverage. The present study is an attempt to compare both debt and equity to the overall

profitability of the firm and thus reflecting the performance of various pharmaceutical firms in India.

2. RESEARCH METHODOLOGY

The data required for the purpose of this study has been taken from the secondary sources. A sample of 7 pharmaceuticals firms was selected across 500 manufacturing sector firms listed on BSE 500. The sample was constructed using following criteria: Firms should be available during the study period of financials of 2009. Some firms with missing data were also removed from the sample. The paper analyses capital structure of 7 pharmaceuticals firms in India whose turnover is more than Rs.1500 crore as per the financials of 2009.The financials of GlaxoSmithKline Pharmaceuticals Ltd. and Ranbaxy Laboratories Ltd. for the year 2009 was not available. These firms were substituted by the firms that are next in order according to the turnover in order to expand the scope of the study. The financial results of pharmaceutical firms were taken from the Capitaline database and Ratios were computed and rankings are provided to the firms accordingly. The secondary data included information like Issued Capital, Reserves and Surplus, Loan Funds-both secured and unsecured, total interest cost, turnover and Earnings per Share (EPS). The various ratios calculated are Interest Coverage Ratios (ICR), Debt - equity ratios, Capital gearing ratios, Return on total shareholders equity (ROE). Table I describes the data selection procedure.

Table I : Sample Selection Procedure

Particulars	No. of firms
Firms listed on BSE	500
Listed firms (Excluding Manufacturing sector)	249
Manufacturing sector firms	251
Less Remaining Listed firms(excluding pharmaceutical firms)	217
Pharmaceutical firms	34
Less: firms with incomplete data as per the financials of 2009	2
Pharmaceuticals Firms(turnover is more than Rs.1500 crore as per the financials of 2009) and included in the final sample.	7

3. OBJECTIVES HYPOTHESIS AND LIMITATIONS OF THE STUDY

Objectives:

1. To evaluate the capital structure of selected pharmaceutical industries in India.
2. To examine the role of financing decisions in the overall performance of the industries.
3. To analyze the debt equity structure of various industries and tries to discover the industry benchmark.

Hypothesis:

H1a. Leverage (Debt-equity) has a negative impact on its profitability (ROE).

H1b. Leverage (Debt-equity) has a positive impact on its profitability (ROE).

Limitations:

The financial data for the pharmaceuticals selected for the study is as on 2009. The basic idea was to consider the firm for the analysis as per the latest figures available. But, it was not possible to consider all such pharmaceutical firms. Sterling Biotech Ltd. had a turnover of Rs 1727.97 for 2008 but the latest financials were not available for 2009, hence, it was not selected for the study. GlaxoSmithKline Pharmaceuticals Ltd. had a turnover of Rs 1751.56 for 2008 but the latest financials were not available for 2009, hence, it was not selected for the study. These pharmaceutical firms were not taken into consideration for study. However, to overcome this problem, the sample size of the study was enlarged to include Cadila Healthcare Ltd. Secondly, the study focuses on debt and equity and its impact on ROE. However there could be some other variables which considerably affect the capital structure of the various pharmaceutical firms. Since this was outside the scope of the study, the same have not been analyzed. If these variables are combined with the results of the current study some interesting outcomes may be seen.

4. DATA ANALYSIS AND DISUSSIONS

4.1 IMPACT OF DEBT-EQUITY MIX ON FINANCIAL PERFORMANCE

In the present study, the pharmaceuticals firms were considered on the basis of secondary data. The paper analyses capital structure of 7 pharmaceuticals firms in India whose turnover is more than Rs.1500 crore as per the financials of 2009. Secondary data included information like Issued Capital, Reserves and Surplus, Loan funds-both secured and unsecured, total interest cost, turnover and Earnings Per Share (EPS).

Table II.
Significant Ratios of the selected Pharmaceutical firms

	Aurobindo Pharma Ltd.	Cadila Healthcare Ltd.	Cipla Ltd.	Dr Reddy's Laboratories Ltd.	Lupin Ltd.	Piramal Healthcare Ltd.	Sun Pharma Inds. Ltd.
Issued capital	26.88	68.2	155.46	84.2	82.82	41.8	103.56
Reserves Total	1,293.95	1,164.60	4,195.29	5,174.90	1292.48	1147.22	5047.86
Secured Loans	813.02	636.7	2.79	2.6	565.12	448.01	23.6
Unsecured Loans	1,301.66	183.2	937.45	637.7	379.79	528.85	0
Interest Cost/IC (in times)	81.2	88	52.23	27.4	41.52	180.69	2.77
Gearing (%)	160.1	66.5	21.61	12.175	68.7	82.15	0.45
Turnover	2,885.25	1,737.40	5,021.64	4,239.80	2,941.94	2383.94	2833.65
Operating profit	324.27	467	1,105.33	950.5	579.25	578.98	1357.04
EPS(Rs.)	23.15	18.72	9.65	32.25	48.22	12.46	58.75
PAT	128.54	265.9	776.81	560.9	416.97	318.81	1239.96
Debt Equity	1.52	0.68	0.18	0.11	0.71	0.67	0.01
ROE (%)	9.73	21.57	17.85	10.67	30.32	26.81	24.07

Source: Capitaline plus database (2009)

For each of the pharmaceutical firms selected in the

study a summary of the ratios computed is given in Table II. It can be seen from Table II that Sun Pharmaceuticals Industries Limited is low geared while Cipla Ltd. is moderately geared. All the other pharmaceutical firms are highly geared. While Lupin ltd. ROE is very high and it is highly geared also. Aurobindo Pharmaceuticals despite being highly geared are not generating high returns. If leverage has a direct relationship with the ROE, then each of these cases a higher debt -equity ratio/gearing ratio should result in high ROE. Dr. Reddy's Laboratories Ltd. is having low ROE and is also geared. Hence, there is no conclusive common determinant which implies that there is not any affect of leverage on the firm's value. It can be further answered by reviewing interest cost, operating profit, along with interest coverage ratio (ICR) of the pharmaceutical firms. The higher the operating profit, the better the ICR. The proportion of more debt in capital structure results into more interest cost and becomes obligatory to the firm to pay as per predetermined rate of interest. The benefit to shareholders depend upon the return on borrowed funds, if it is higher than the fixed charge of borrowed funds, otherwise the shareholders are tend to loose in it. Another disadvantage attached to more debt in capital structure is higher borrowing cost which makes debt risky. The lender incorporates the high risk element in the lending rate making the interest cost high. At the same time, if firm's profits are low, the high risk of default may result into more interest cost. This can result in leverage working in the opposite direction. A detailed financial structure of the selected pharmaceutical firms has been presented in Table III along with the EPS.

A number of theories have attempted to explain the variation in debt ratios across firms. The theories also suggest that firms select capital structure depending on attributes that determine the various costs and benefits associated with debt and equity financing. But, the explanations deviate from the Modigliani and Miller's Provocative irrelevance proposition. This paper is an attempt to analyze the debt equity structure through financial information of selected pharmaceuticals industries in India in order to establish a relationship between capital structure and financial performance.

Table III.
Financial information of the selected Pharmaceutical firms

	Aurobindo Pharma Ltd.	Cadila Healthcare Ltd.	Cipla Ltd.	Dr Reddy's Laboratories Ltd.	Lupin Ltd.	Piramal Healthcare Ltd.	Sun Pharma Inds Ltd.
Issued capital	26.88	68.2	155.46	84.2	82.82	41.8	103.56
Reserves Total	1,293.95	1,164.60	4,195.29	5,174.90	1292.48	1147.22	5047.86
Secured Loans	813.02	636.7	2.79	2.6	565.12	448.01	23.6
Unsecured Loans	1,301.66	183.2	937.45	637.7	379.79	528.85	0
Interest cost	81.2	88	52.23	27.4	41.52	180.69	2.77
ICR	2.98	4.37	18.26	27.62	12.35	2.74	468.66
Gearing ratio (%)	160.1	66.5	21.61	12.175	68.7	82.15	0.45
Debt Equity	1.52	0.68	0.18	0.11	0.71	0.67	0.01
Turnover	2,885.25	1,737.40	5,021.64	4,239.80	2,941.94	2383.94	2833.65
Operating profit	324.27	467	1,105.33	950.5	579.25	578.98	1357.04
EPS (in Rs.)	23.15	18.72	9.65	32.25	48.22	12.46	58.75
Face value of shares	5	5	2	5	10	2	5
PAT	128.54	265.9	776.81	560.9	416.97	318.81	1239.96

Source: Capitaline plus database (2009)

The ranking for the ratios and other relevant financial information have been done in Table IV, V and VI in descending order where ranking for the highest category is assigned as 1 and lowest category as 7 and accordingly the inference is drawn regarding the overall performance.

Table IV.
Ranking of Interest related cost of the selected Pharmaceutical firms

	Aurobindo Pharma Ltd.	Cadila Healthcare Ltd.	Cipla Ltd.	Dr Reddy's Laboratories Ltd.	Lupin Ltd.	Piramal Healthcare Ltd.	Sun Pharma Inds Ltd.
Operating profit	7	6	2	3	4	5	1
Interest Cost	3	2	4	6	5	1	7
ICR	6	5	3	2	4	7	1

Source: Capitaline plus database (2009)

Table V.
Ranking of long term solvency Pharmaceutical firms

	Aurobindo Pharma Ltd.	Cadila Healthcare Ltd.	Cipla Ltd.	Dr Reddy's Laboratories Ltd.	Lupin Ltd.	Piramal Healthcare Ltd.	Sun Pharma Inds Ltd.
Gearing ratios	1	4	5	6	3	2	7
Borrowings	1	5	4	6	3	2	7

Source: Capitaline plus database (2009)

Table VI.
Rankings of Profitability of the selected Pharmaceutical firms

	Aurobindo Pharma Ltd.	Cadila Healthcare Ltd.	Cipla Ltd.	Dr Reddy's Laboratories Ltd.	Lupin Ltd.	Piramal Healthcare Ltd.	Sun Pharmaceutical Inds Ltd.
ICR	2.98	4.37	18.26	27.62	12.35	2.74	468.66
Gearing (%)	160.1	66.5	21.61	12.175	68.7	82.15	0.45
Debt Equity	1.52	0.68	0.18	0.11	0.71	0.67	0.01
ROE	7	4	5	6	1	2	3
PAT	7	6	2	3	4	5	1

Source: Capitaline plus database (2009)

Sun pharmaceutical has the highest ICR and high operating profit and lowest interest cost. The pharmaceutical has the lowest borrowings in the industry and the lowest gearing ratio. The profitability ranking shows that the PAT is highest and ROE is moderately low in the industry. It is evident that the firm has been able to generate a low debt and has been able to generate a good return for the

shareholders possibly because of high operating profit and low interest cost, resulting in high ICR and the third highest ROE in the industry.

Dr.Reddy's Laboratories Ltd. has the second highest ICR in the industry with the second lowest interest cost and relatively moderate profit in the industry. The firm is low geared and has moderately high PAT and second lowest ROE in the industry. Even though there is a low level of borrowings and sufficient profits to meet its interest cost, the firm has not been able to maintain a good return for its shareholders. Thus, the firm has not been obtained the benefits of leverage.

Cipla Ltd. has a favorable ICR in the industry but a low ROE. The firm has one of the highest operating profit and moderate interest cost in the industry. The firm has favourable PAT, moderate borrowings and sufficient profits to meet its interest cost. Even than the firm has not obtained the benefits of leverage and has been unable to generate magnified returns to the shareholders.

Lupin Ltd. has a good, moderately geared, favorable operating profit and interest cost in the industry. The firm has been able to generate a good return for the shareholders. This has been possible because of good operating profit and relatively low interest cost resulting in good ICR and highest ROE in the industry.

Cadila Healthcare Ltd. has a low ICR and low ROE in the industry. Cadila Healthcare Ltd. is moderately geared and has second lowest operating profits and considerably low PAT but the interest cost is comparatively very high. The low operating profit and high interest cost has resulted in low ICR. Borrowings are not high as per the industry norms. Thus, moderate gearing ratio coupled with low ICR has resulted in low ROE for the firm. Leverage does not seem to be working in favour of the firm.

Aurobindo Pharma Ltd. is excessively levered which is having a negative impact on its overall profitability. The firm is highly geared but has a low ROE. The reason for this is the firm's relatively high interest cost, lowest operating profits, lowest PAT that has resulted in one of the lowest ICR. The firm has highest level of borrowings. Leverage is working in the opposite direction for the pharmaceutical firm.

Piramal Healthcare Ltd. has a lowest ICR but second highest ROE in the industry. Piramal is highly geared and has moderately low operating profits. Although, the interest cost for the firm is highest resulted due to high debt, the returns available to the shareholders is second highest in the industry. With high borrowings and high gearing ratio, the overall ROE is high even when the operating profit and PAT is moderately low. A high gearing ratio coupled with lowest ICR has resulted in one of the highest ROE in the industry. Leverage seems to be working in favour of the firm.

4.2 MANAGERIAL IMPLICATIONS:

The leverage may be working in favour of the firms while working in opposite direction for other pharmaceutical firms based on the debt -equity and ROE relationships. Lupin Ltd. can be said to be the best performer in the industry followed by Piramal. Sun Pharmaceuticals is the third best performing company followed by Piramal. While Dr. Reddy and Aurobindo Pharma Ltd. are one of the good pharmaceutical firms but they are not generating very high ROE as compared to the other firms in the industry. The firms that are moderately geared i.e. Lupin and Piramal Healthcare Ltd. are able to generate a good ROE. Aurobindo Pharma Ltd. is a highly geared firm but it is having a lowest ROE because of highest borrowings in the industry. Low geared firms as well as highly geared firms need to work on improving their ROE by changing their debt equity mix for Aurobindo Pharma Ltd., Cadila Healthcare Ltd., Cipla Ltd., Dr.Reddy's Laboratories Ltd.

Table VII
Ranking for new ROE of selected Pharmaceutical firms

	Aurobindo Pharma Ltd.	Cadila Healthcare Ltd.	Cipla Ltd.	Dr Reddy's Laboratories Ltd.	Lupin Ltd.	Piramal Healthcare Ltd.	Sun Pharmaceutical Inds Ltd.
Interest cover ratio	2.98	4.37	18.26	27.62	12.35	2.74	468.66
Gearing ratio (%)	160.1	66.5	21.61	12.175	68.7	82.15	0.45
Debt Equity	1.52	0.68	0.18	0.11	0.71	0.67	0.01
New ROE (%)	4.9	18.78	14.71	9.51	23.76	18.56	17.6
Ranking	7	2	5	6	1	3	4

Source: Capitaline plus database (2009)

The another method for evaluating the performance of the pharmaceutical firms would be by computing new ROE considering unsecured loans also as a part of the Net Worth. The numerator is PAT and the denominator is Net Worth plus unsecured loans. The results and the ranking of the new ROE have been presented in table VII.

The findings of Table VII confirm the previous findings of the study. The firms generated the highest ROE in the pharmaceutical industry are also the highest scorer in the new ROE. The various firms have been able to generate good return for the shareholders even though their performance was evaluated by including unsecured loans as well as Net Worth. But, ROE cannot be considered as a sufficient benchmark for evaluating the firm's performance. The modern concept of financial management deals with providing maximum returns to shareholders than market capitalization would be

considered as more realistic barometer of the firm's overall performance.

Considering this fact, Table VIII shows the data on the market price of shares for the firms under study. The ranking has been provided to the market capitalization to find out the best performer in the pharmaceutical industry.

Table VIII

Ranking for Market Capitalization as at 14th Jan.2010

	Aurobindo Pharma Ltd.	Cadila Healthcare Ltd.	Cipla Ltd.	Dr Reddy's Laboratories Ltd.	Lupin Ltd.	Piramal Healthcare Ltd.	Sun Pharmaceutical Inds Ltd.
Issued capital	26.88	68.2	155.46	84.2	82.82	41.8	103.56
Reserves Total	1,293.95	1,164.60	4,195.29	5,174.90	1292.48	1147.22	5047.86
Secured Loans	813.02	636.7	2.79	2.6	565.12	448.01	23.6
Unsecured Loans	1,301.66	183.2	937.45	637.7	379.79	528.85	0
Interest Cost	81.2	88	52.23	27.4	41.52	180.69	2.77
Turnover	2,885.25	1,737.40	5,021.64	4,239.80	2,941.94	2383.94	2833.65
Operating profit	324.27	467	1,105.33	950.5	579.25	578.98	1357.04
EPS(Rs.)	23.15	18.72	9.65	32.25	48.22	12.46	58.75
PAT	128.54	265.9	776.81	560.9	416.97	318.81	1239.96
Closing market price14.01.2010 (Rs.)	907.4	677.1	340.85	1236.7	1392.75	389.45	1556.7
Market capitalization (in Rs.)Cr.	5003.4	9242.42	27366.85	20877.97	12382.94	8139.5	32242.37
Ranking	7	5	2	3	4	6	1

Source: Capitaline plus database (2009)

Table IX consolidated the movement in stock prices over the last six years. The table VIII and table IX would be quiet helpful in interpreting the aspect of financial strength of the firms which affect investor's decision making in the stock market.

Table IX

Increase in share prices over the last six years

Pharmaceutical Firms	2005	2006	2007	2008	2009	2010(as on 14.01.2010)	Increase over the last six years(no. of times)
Aurobindo Pharma Ltd.	287.15	682.75	679.15	291.35	189.9	907.4	2.16
Cadila Healthcare Ltd.	231.5	337.7	335.5	254.65	272.1	677.1	1.92
Cipla Ltd.	101.92	264.78	235.7	219.75	219.75	340.85	2.34
Dr Reddy's Laboratories Ltd.	369.55	710.15	727.5	590.95	488.65	1236.7	2.35
Lupin Ltd.	276.53	509.3	605.65	493.9	689.2	1392.75	4.04
Piramal Healthcare Ltd.	222.1	259.8	245.65	303.2	194.25	389.45	0.75
Sun Pharmaceutical Inds Ltd.	471.4	866.4	1054	1231.4	1112.35	1556.7	2.30

Source: Capitaline plus database (2009)

It can be easily ascertained from the table that Lupin Ltd, Dr.Reddy's Laboratories Ltd. and Cipla Ltd. have had the maximum increase in share prices from 2005-2010. This partially explains why Cipla Ltd., Dr. Reddy despite a low ranking in ROE are still popular firms for investors. Lupin has had the highest appreciation in share value over the past six years and Sun Pharmaceuticals has the highest market capitalization as on 14th Jan. 2010.

It can be concluded that the results of market prices and market capitalization combined with ROE can provide useful information for the firm's overall performance. The firms that are listed consider the performance in the stock market more important as compared to ROE.

In order to categorize a particular firm as a good or bad performer depends upon the market price data as well as ROE. The analysis depicts that, even if, the ROE is not very great, the firms having appreciation in share value are preferred more by the investor. But for unlisted firms in industry, ROE is still considered as an important and reliable tool for determining the market performance where no market data is available otherwise.

CONCLUSIONS

One of the major issues encountered by fund managers today is not just procurement of funds but also their meaningful deployment to generate maximum returns. Sources of funds are generally the same across all businesses but then why is it that some businesses are able to do better than the rest. If the logic of outstanding performance is a viable business idea, then why is it that some companies still fail to achieve success even with ample funds and the right business idea? The above discussion clearly implies that there is something beyond financial success of business besides great ideas and good geographic presence. Capital structure is one of the important determinants of a firm's success.

The above discussion may conclude that in pharmaceuticals industry the firms having both high and low debt -equity ratios (Gearing ratio) are not desirable. A firm should go in for ideal mix of debt-equity then ensures maximum ROE and in turn provides maximum returns to shareholders.

It can be concluded that the results of market prices and market capitalization clubbed with ROE can provide useful information for the company's overall performance. For listed companies, performance in the stock market is more vital than its scores on ROE. For such companies market price data should be considered in addition to ROE to categorize a company as a good or bad performer. A company that offers a good appreciation in share value is certainly a preferred company by an investor, even if the ROE is not very great. The same tendency is becoming evident in the analysis done above.

Managers should be careful while using stock market data to comment on the company's performance. It is advisable to use such information for a period of time than at a point-in-time. Taking data for a period of time would alleviate the effect of cyclic depressions and booms in the stock market. Interestingly, for unlisted companies where no market price data is available, ROE is still the best and is the most reliable tool to determine the financial performance.

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