
A COMPARATIVE FINANCIAL PERFORMANCE BETWEEN FOREIGN COMPANIES AND DOMESTIC COMPANIES IN INDIAN PHARMACEUTICAL SECTOR

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ABSTRACT

Capital play very important role for the growth and development of any economy but in absence of capital no economic activity can be performing. Capital can be raised with in the country or form outside the country and this capital is invested in companies which is known as foreign companies but all companies is not getting investment from outside country. There are many companies who are totally relying on domestic capital know as domestic companies. There are many research carried out to analyse wither performance of foreign companies is better than domestic companies or performance of domestic companies is better than foreign companies. The present study is made an attempt to make comparative analysis between foreign companies and domestic companies in Indian Pharmaceutical Sector by using panel data for 82 for the period 2007-2016. Variables used in this paper are PAT, age, size, current ratio and quick ratio. The paper concluded that foreign companies performance is better than domestic companies in Indian Pharmaceutical Sector.

KEYWORDS: PAT, CR,QR, DTE

INTRODUCTION

India is considered as the largest democracy in the world. It is ranked as the 4th largest economy and the 10th industrialized country in the world. For it further growth it need capital which play very important role for the growth and development of any economy but in absence of capital no economic activity can be performing. Capital can be raised with in the country or form outside the country and this capital is invested in companies which is known as foreign companies but all companies is not getting investment from outside country. There are many companies who are totally relying on domestic capital know as domestic companies. There are many research carried out to analyse wither performance of foreign companies is better than domestic companies or performance of domestic companies is better than foreign companies. The present study is made an attempt to make comparative analysis between foreign companies and domestic companies in Indian Pharmaceutical Sector.

REVIEW OF LITERATURE

(Azzam, Fouad, & Ghosh, 2013) aim is to examine the relationship between the degree of foreign ownership and financial performance of 8,185 companies in Egypt from 2006 to 2010 by using panel data analysis. The study concluded that firm's return on assets (ROA), return on equity (ROE), debt ratio (DR) was positively related to foreign ownership. It also concluded that with increase in foreign ownership the financial performance of companies will increase which is depend on sector specification. (Bishwanath, 2015) made an attempt is to assess the impact of FDI in Indian manufacturing firms on their performance. The study was done by using panel data set (unbalanced panel) on 775 manufacturing companies in India for the period of 2000-01 to 2011-12. Variables of the study are Growth, profitability and export intensity were used as performance indicators for the analysis. To make an assessment of impact of ownership change on the firm performance the difference in difference (DID) estimators was used. The study concluded that FDI tend to raise profitability of Indian manufacturing firms where as for the growth and export performance FDI does not show significant effect. (Iuliana, 2014) aim of this paper is to study the relation between the foreign ownership and manufacturing firm performance of 261 companies. Variable used are Return on assets (ROA), Return on Equity (ROE) and Return on sales (ROS). The results shows

that there is non significant relation between economic and financial performance and the existence of foreign ownership. (Lall and Mohammad, 1983) studied the impact of foreign ownership on export performance of 24 industries containing largest private sector companies in India by using econometric model. The study concluded that there is strong and positive relationship between foreign ownership and export performance. Firm with high foreign shareholding perform much better than those domestic firms. Secondly it was also found that capital intensity has negative effect on export performance of firm in India. (Mello, 1999) this paper focus to estimate the impact of Foreign Direct on Capital Accumulation, Output and total factor of production growth in recipient economy from 1970 to 1990. Statistical tools used were time series and panel data analysis. The study concluded that the recipient country of FDI have positive impact on its economy by way of technological upgrading and knowledge spillovers. (Parker, Vaiyada & Wei, 2000) focused to examine the impact of FDI on Chinese electronic industry with special reference to labour productivity from 1996 -1997. The study is carried on by using panel data for 41 sub sectors in Chinese electronic industry. The study concluded that FDI has a positive impact of labour productivity in Chinese electronic industry.

OBJECTIVES

1. To study the relationship between foreign companies and domestic companies in terms of PAT, age, Size, current ratio and quick ratio.
2. To make comparative analysis between foreign companies and domestic companies in Indian Pharmaceutical Sector.

HYPOTHESIS

The hypotheses formulated are as follows:

H01: There is no significant difference between foreign companies and domestic companies in terms of PAT, age, Size, current ratio and quick ratio.

H02: There is no significant difference between foreign companies and domestic companies in term of PAT.

RESEARCH METHODOLOGY

This paper made an attempt to make comparative analysis between foreign companies and domestic companies financial performance in Pharmaceutical sector. The data has been collected from CMIE Prowess IQ data base for 82 Pharmaceutical companies listed at BSE for the period for 10 years (2007-2016). The list of foreign Companies is selected on the basis of FDI definition given by IMF i.e. the company is considered as foreign company if foreign investment in the company is 10% or more than 10%. If foreign investment in the company is less than 10% then it is consider as domestic company. The total number of Companies in CMIE Prowess IQ data base is 2676 out of which 29 are consider as foreign companies because foreign investment in those companies are more than 10% and 53 domestic companies because foreign investment in those companies are less than 10% in Pharmaceutical sector. Since the nature of data is panel hence panel data analysis i.e. pooled, fixed effect model to know the time effect, Random effect model is used to know the firm and time effect is run to meet the objective of the study.

Table-1 Description of Variables

Variables	Description
Dependent Variable	
PAT	Net Profit - tax
Independent Variables	
Size (S)	Natural logarithm of total assets
Age (A)	Number of years since a firm is founded
Current Ratio (CR)	Ratio of current assets to current liabilities
Quick Ratio (QR)	Ratio of quick assets to current liabilities

(Source: Author Compilation)

ANALYSIS AND INTERPRETATIONS**DESCRIPTIVE ANALYSIS:**

The following table gives details of descriptive analysis of dependent and independent variables in the study.

Table 2- Descriptive Statistics

		PAT	AGE	CR	QR	SIZE
Mean	Foreign	177.38	33.57	1.11	0.72	261.75
	Domestic	1.05	32.24	12.59	293.10	293.10
Median	Foreign	5.40	28.00	1.07	0.63	498.60
	Domestic	0.60	26.00	1.11	130.30	13.30
Maximum	Foreign	315.10	97.00	5.65	4.24	33.40
	Domestic	86.43	10.00	954.80	165.00	16.00
Minimum	Foreign	-89.30	4.00	0.00	0.00	0.00
	Domestic	0.00	11.00	0.00	0.00	0.00
Std. Dev.	Foreign	482.37	19.69	0.99	0.71	50.42
	Domestic	4.10	18.63	88.08	1677.20	167.00
Skewness	Foreign	3.72	1.16	1.55	1.80	3.32
	Domestic	18.21	1.91	8.66	7.85	7.85
Kurtosis	Foreign	18.73	4.06	7.19	7.95	16.24
	Domestic	372.60	6.89	81.15	66.83	66.82
Jarque-Bera	Foreign	365.15	78.84	326.74	450.92	26.38
	Domestic	292.00	63.36	135.40	916.41	91.40
Probability	Foreign	0.00	0.00	0.00	0.00	0.00
	Domestic	0.00	0.00	0.00	0.00	0.00
Obser	Foreign	289.00	289.00	289.00	289.00	289.00
	Domestic	509.00	509.00	509.00	509.00	509.00

(Source: Author Compilation)

It is clear that all variables age, CR, FP, QR and size are positively skewed. Kurtosis values reveal that follow Mesokurtic distribution. Jarque-Bera statistic tests the null hypothesis that data follow normal distribution. By using probability values of Jarque- Bera statistics, null hypothesis is rejected for all variables even at 1% level of significance.

T- TESTFOR COMPARISON OF MEANS

The below table 3, shows the basic indicators of Foreign companies and Domestic companies in Indian Pharmaceutical Sector for the period 2007-2016. The basic indicators include PAT, age, Size, current ratio and quick ratio. The result shows that there is since there is significant difference among the variables of foreign companies and Domestic companies.

Table 3- T- test for comparison of means

		N	Mean	t-Stat	DF
PAT	Foreign companies	290	176.80	-4.92	289
	Domestic companies	510	1242.32	-5.17	509
AGE	Foreign companies	290	33.56	2.57***	289
	Domestic companies	510	32.22	-39.09	509
SIZE	Foreign companies	290	2611.29	-8.77	289
	Domestic companies	510	40.92	-2.14**	509
CR	Foreign companies	290	1.11	23.89	289
	Domestic	510	12.57	-3.22***	509
QR	Foreign companies	290	0.72	24.18	289
	Domestic companies	510	1.05	-5.79	509

***Significance at 1% and **Significance at 5%

(Source: Author Compilation)

PANEL DATA ANALYSIS

The following table gives details of panel data analysis.

Table 4- Panel Data Analysis

Variables	Pooled Effect Model	Fixed Effect Model	Random Effect Model
Foreign Pharmaceutical companies			
C	-69.74 (-2.33)	49.12 (0.33)	-68.38 (-1.18)
AGE	0.15 (0.19)	-4.70 (-1.06)**	-0.73 (-0.47)**
CR	-20.71 (-0.66)	-14.56(-0.47)	-20.41 (-0.69)
QR	63.28 (1.43)	94.25 (1.98)	92.41 (2.11)
SIZE	0.08 (26.62)***	0.09 (15.39)***	0.09 (19.20)***
Hausman Test Statistic 2.51 (0.73)			
Domestic Pharmaceutical companies			
C	918.23 (3.22)**	-2611.47 (-2.17)*	500.16 (0.93)
AGE	-10.79 (-1.39)	80.88 (2.16)*	-5.82 (-0.40)*
CR	-0.68 (-0.42)	-0.19(-0.07)	-0.16 (-0.07)
QR	28.48 (0.82)	9.25 (0.31)	15.53 (0.53)
SIZE	0.03 (31.60)***	0.04 (21.80)***	0.03 (25.04)***
Hausman Test Statistic 64.29 (5.00)***			
NOTE- Numbers in Parentheses are t-statistics			
* Denote that coefficient are significant at 1% level			
** Denote that coefficient are significant at 5% level			
*** Denote that coefficient are significant at 10% level			

(Source: CMIE-Prowess & Author Compilation)

The results of pooled, fixed effect and random effect model for domestic and foreign companies in Pharmaceutical Sector in India have been presented in above table. The impact of profit after tax in Pharmaceutical sector is analysed.

Foreign companies in Pharmaceutical Sector in India shows that age in pooled effect model shows that it is not shown significance effect on PAT. In fixed and random effect model they found to that PAT has negative effect on age at 5% level of significance. In case of domestic companies in Pharmaceutical Sector in India PAT does not have significant effect as per pooled effect model but in case of fixed and random effect model they found to that PAT has negative effect on age at 10% level of significance. Both types of companies have significant effect of PAT on age.

Foreign companies in Pharmaceutical Sector in India shows that age in pooled effect model shows that it has significant PAT at is not shown significance effect. In fixed and random effect model they found to that PAT does not have any effect on current ratio (CR). In case of domestic companies in Pharmaceutical Sector in India PAT does not have significant effect as per pooled effect model, fixed and random effect model. Both types of companies PAT are not affected by current ratio (CR).

Foreign companies in Pharmaceutical Sector in India shows that age in pooled effect model shows that it has significant PAT at is not shown significance effect. In fixed and random effect model they found to that PAT does not have any effect on Quick ratio (QR). In case of domestic companies in Pharmaceutical Sector in India PAT does not have significant effect as per pooled effect model, fixed and random effect model. Both types of companies PAT are not affected by Quick ratio (QR).

Foreign companies in Pharmaceutical Sector in India shows that size in pooled effect model shows has significance effect on PAT at 1% level of significance. In fixed and random effect model also found to be significance at 1%. In case of domestic companies in Pharmaceutical Sector in India PAT has significant effect on size at 1% level of significance in all three models i.e.pooled effect model, fixed and random effect model.

Hausman test results shows that 2.51 (0.73) for foreign companies Shows that random effect model is better than fixed effect model where as in case of domestic companies 64.29 (5.00)fixed effect model is better than random effect model at 1% level of significance.

Conclusion

This paper first confirmed significant differences between foreign companies and domestic companies and then it make comparative analysis to know is there is significant difference financial performance of foreign companies and domestic companies in term of Profit after Tax in Indian Pharmaceutical Sector. It uses the panel data for 82 Pharmaceutical companies listed at BSE for 10 years (2007-20016).The descriptive statistics show that foreign companies are more efficient then domestic companies. T- Test results proved there is there is significant difference among the variables of foreign companies and Domestic companies in PAT, age, Size, current ratio and quick ratio. The result of panel data analysis shows that the financial performance of foreign companies is much better than domestic companies in term of Profit after Tax in Indian Pharmaceutical Sector.

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