INDIAN PHARMACEUTICAL COMPANIES: ANALYSING THE FACTORS IMPACTING PROFITABILITY, LIQUIDITY, AND LEVERAGE ON DIVIDEND POLICY TO DEVELOP A FINANCIAL FORECASTING MODEL BY EMPLOYING STATISTICAL REGRESSION DRIVEN ANALYTICS[1]

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Profit strategy is one of the vital and perplexing issues in corporate fund; it is a questionable subject that back researchers take part in speculating the inclination of firms for paying profits or not. One of the major budgetary choices that a back administrator needs to take is to choose about the profit payout proportion. Profit strategy assumes a vital job as in it has an immediate bearing available cost of the organization. So also, the organization can't pay every one of the benefits out to the investors for the need of future assets. Held profit is a noteworthy wellspring of assets which can be utilized by the firm for the future development. Along these lines a satisfactory profit approach where on one hand increments or continues the market estimation of offers; then again, it gives adequate assets to the firm for future needs. There are numerous components that decide a company's profit strategy. In any case, in this content, we will restrain these elements to just three in particular Profitability, Liquidity, and Leverage. We will think about the impact of these elements with regards to Indian pharmaceutical organizations. We will dissect the money related information of Indian pharmaceutical organizations with the assistance of factual apparatuses and afterward observe what the effect of these elements on profit approach is. How the profit payout proportion moves with an adjustment in one of the components to be considered. At that point to finish up what are the after effects of our investigation and to what degree these outcomes coordinate with the genuine conduct of profit approach by and by.

REVIEW OF LITERATURE

Basil Al-Najjar's examination was worried about the components influencing profit approach through considering information of Jordanian non-money related firms. An investigation was directed by concentrate the board information of Jordanian non-money related firms and applying the different factual apparatuses to think about the elements influencing the profit payout proportion.

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OBJECTIVE OF THE STUDY

The study was planned to demonstrate that profit strategy in Jordan, a creating nation is affected by the variables like those identifying with created nations, for example, use proportion, institutional possession, benefit, business hazard, resource structure, development rate, and firm size.

Methodology

In study, Basil Al-Najjar has made utilization of relapse models like pooled and board to bit models and logit model to explore the profit strategy. Break down of the information has done through relapse models to indicate evaluations of slant and capture terms. The examination incorporates information of 86firms for the period 1994 to 2003. Discoveries of the investigation demonstrated that the components influencing the profit strategy ahead of time nations were like those which influence profit approach in Jordon. Furthermore, it is likewise discovered that factors those influencing the probability of paying profits are like those influencing the profit approach. The investigation likewise uncovered that profit payout proportion is decidedly identified with productivity and liquidity however contrarily identified with use.

Analysis

Determinants of Dividend Policy

Leverage: A company's use assumes a key job in clarifying association's profit strategy. Use is contrarily identified with profits, this implies firms with low obligation proportions are happy to pay more profits. "Firms with generally not so much obligation but rather more substantial resources have more prominent money related slack and progressively ready to pay and keep up their profits" (Aivazianet al., 2003: 380). This outcome is bolstered by the organization costs hypothesis of profit strategy. Support for this contention originates from Jensen et al. (1992) and Aivazian et al. (2003). In any case, in spite of this, it is additionally contended that there is a positive connection between use and an association's profit approach. This is upheld by the flagging hypothesis. "Firms with high payout proportions will, in general. be obligation financed, while firms with low payout proportions will, in general, be value financed" (Chang and Rhee, 1990:23).

Profitability: A company's gainfulness is viewed as a critical factor that influences its profit arrangement. This is on the grounds that a beneficial firm is happy to pay higher measures of profits and henceforth a positive relationship is normal between the company's gainfulness and its profit installments. This outcome is additionally upheld by the flagging hypothesis of profit Policy. As such, productive firms pay profits to pass on their great money related execution (Bhattacharya, 1979; Chang and Rhee, 2001; Ho, 2003; Aivazian et al.,2003).

Liquidity: A company's liquidity is an essential factor that influences the appropriation of money profits. Firms with higher money accessibility, pay higher profits than different firms with deficient money. This positive relationship is upheld by the flagging hypothesis of profit arrangement (Ho, 2003).

Data

This study investigates the effect of the three factors discussed above on the dividend policy in Indian pharmaceutical companies. For this purpose, data has been drawn from Indian pharmaceutical companies. From this database, 20 companies have been selected with their financial data for the year 2008.

Methodology

This study uses a simple multiple regression model to calculate the estimators of regression parameters. The following equation is used to express the model:

$$Yi=\alpha+\beta1X1i+\beta2X2i+\beta3X3i$$

Where,

Yi=dividend payout ratio of the ith company measured by the following formula

α=constant term

X_{1i}=Profitability measured by Net profit ratio, $\frac{\textit{Net profit}}{\textit{Net sales}}$

X_{2i}=Liquidity measured by current ratio, $\frac{\textit{current assets}}{\textit{current assets}}$

X_{3i}=Leverage ratio, $\frac{\textit{Total debts}}{\textit{Total Assets}}$

TABLE 1

Dividend payout ratio, net profit ratio, Debt-assets ratio and current ratio of 20 Indian pharmaceutical companies for the year ending 31st March 2008.

AURIBINDO PHARMA LTD	0.6	12.06	0.58	6.88
AJANTA PHARMA LTD.	0.25	6.09	0.55	5.4
ALEMBIC LTD.	0.75	10.92	0.55	3.54
ANUH PHARMA LTD.	1.6	6.7	0.05	4.7
ARVIND PHARMA LTD.	0.05	2.54	0.65	3.56
ATUL LTD.	0.3	3.2	0.49	2.81
CIPLA LTD.	1	17.1	0.33	5.34
HIKAL LTD.	0.4	15.9	0.66	1.55
SHILPA MEDICARE LTD.	0.2	11.8	0.57	4.54
LUPIN LTD.	1	16.99	0.42	4.15
NOVARTIS INDIA LTD.	2	0.15	0.002	7.49
EMAMI LTD.	0.5	0.14	0.11	4.82
CADILA LTD.	0.9	0.14	0.412	3.49
FDC LTD	1	0.13	0.03	2.22
GRANULES INDIA LIMITED	0.125	0.04	0.38	3.74
INDOCO REMEDIES LTD	0.325	0.11	0.11	3.85
MATRIX LABORATORIES LTD	0.6	0.15	0.03	2.7
SPAN DIAGNOSTICS LTD	0.2	0.05	0.61	2.55
SUVEN LIFE SCIENCES LTD	0.25	0.07	0.31	5.77
THEMIS MEDICARE LTD	0.25	0.05	0.51	2.25
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REGRESSION RESULTS

Directing various straight Regressions gives the accompanying outcomes:

Yi=0.726+0.032 X1i - 1.566 X2i +0.074X3i

With R2 0.571 which demonstrates that relapse fits the information 57%. As such, 57% variety is clarified by the relapse display. Results demonstrate that there is a positive connection between profit payout proportion and benefit not surprisingly by the hypothesis, however, this coefficient isn't high. Esteem 0.032 demonstrates that 1% change in benefit causes 0.032% change in profit payout proportion. Though coefficient β2 demonstrates a negative connection among use and profit payout proportion of course earlier. It demonstrates that 1% expansion in obligation resource proportion results in a 1.566% decline in normal % of profit payout proportion. Additionally, results demonstrate that the profit payout proportion is decidedly identified with liquidity with an estimation of 0.74.

The consequences of the examination are steady with the hypothesis of profit strategy. Despite the fact that the outcomes got above are not exceptionally solid. This could be because of the idea of pharmaceutical organizations or deficient information. In this manner as the final word to close it is set up that profit payout proportion is decidedly identified with productivity and use and contrarily identified with use.

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