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A Study on Corporate Financialization on Listed Pharmaceutical Company in India

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Abstract

This study explores the phenomenon of corporate financialization within listed pharmaceutical companies in India, focusing on how financial strategies such as mergers and acquisitions, shareholder value maximization, and other financial metrics impact firm performance. Through an in-depth analysis of key companies—Sun Pharma, Lupin, Zydus Cadila, Dr. Reddy's Laboratories, and Cipla—the research identifies the dual effects of financialization: while these practices can improve short-term profitability and shareholder returns, they may also reduce investments in research and development (R&D), potentially compromising long-term innovation and drug accessibility. The findings underscore the need for a strategic balance between financial performance and sustainable growth in the pharmaceutical sector.

Keywords: Corporate financialization, pharmaceutical industry, India, mergers and acquisitions, shareholder value, financial performance, R&D investment, listed companies, sustainability, drug innovation.

Introduction

Financialization is understood as the increasing prominence of financial motives, markets, actors, and institutions within the operations of both domestic and international economies. This trend takes on a distinctive form in the pharmaceutical industry, which is characterized by an imbalanced market structure where a small number of large companies exert significant control over the value chains. The dominance of these major players allows them to generate substantial rent income, which can have adverse effects on smaller research companies and, ultimately, on consumers.

Rent income, derived from goodwill and intellectual property rights (IPRs) on drugs, is increasingly being directed toward shareholders. This financial strategy reduces the funds available for research and development (R&D) at various stages of the drug development process.

Literature Review

Froud et al. (2006) examined the pharmaceutical industry's transformation through a financialization lens, contrasting it with traditional approaches and highlighting the shift towards prioritizing financial returns over product innovation. **Lazonick & Tulum (2011)** attributed the US pharmaceutical industry's productivity crisis to financialization, where shareholder value maximization undermines drug innovation, a contrast to less-financialized European companies. **Lazonick (2014)** argued that financialization and competition have shaped major pharmaceutical companies' productive models, with a focus on maximizing shareholder returns and the resulting unsustainability of the blockbuster model. **Lazonick (2017)** explored the increasing financialization of the pharmaceutical industry since the **1990s**, emphasizing the influence of the financial sector and practices like share buybacks and M&As on corporate strategies and public health.

Objectives of the study:

"To acesses the effect of corporate financialization on the financial performance of listed pharmacutical companies."
"To determine how corporate financialization affects the innovation efficeincy and profitabilty of firms."

Research Methodology:

This research investigates the impact of corporate financialization on listed pharmaceutical companies in India. The central problem addressed in this study is how financialization practices—such as mergers and acquisitions (M&As), shareholder payouts, and financial engineering—affect the financial performance, profitability, and innovation capabilities of Indian pharmaceutical firms. The objective is to understand how these strategies shape both short-term profitability and long-term sustainability within the sector. Specifically, the study aims to analyze the profitability position of selected pharmaceutical companies, evaluate how financialization influences innovation efficiency, and identify the key challenges and opportunities that arise from these financial practices.

To achieve these objectives, the study adopts a mixed-method approach combining descriptive, exploratory, and causal research designs. Descriptive research is used to quantify the current financial performance of listed companies by evaluating key financial ratios such as net profit, gross profit, and earnings per share (EPS). Exploratory research helps uncover underlying factors contributing to the challenges and opportunities presented by financialization, particularly in innovation investment. Causal research is employed to examine the direct and indirect effects of financial strategies on performance metrics, using correlation and regression analyses.

The data for this study is primarily collected through secondary sources. This includes financial statements, annual reports, and industry publications of listed pharmaceutical companies in India. Additionally, data on mergers and acquisitions, R&D expenditures, shareholder returns, and other performance indicators are sourced from publicly available databases and company disclosures. While primary data collection—such as surveys or interviews—was not a core focus of this study, it remains a possible extension for future research to gather insights from industry professionals.

The sample population for this study consists of major listed pharmaceutical companies in India. These include Sun Pharmaceutical Industries Ltd., Lupin Ltd., Zydus Cadila Healthcare Ltd., Dr. Reddy's Laboratories Ltd., and Cipla Ltd. These firms were selected based on their market relevance, consistent financial reporting, and accessibility of historical data. Comparative analysis of these firms enables a robust evaluation of how financialization strategies differ across organizations and how they relate to performance outcomes.

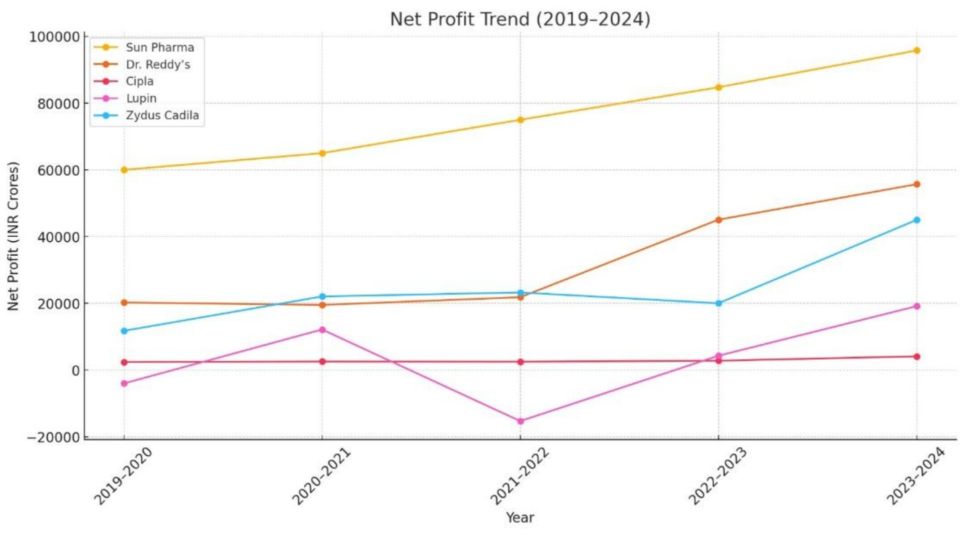
Several statistical tools and techniques are used in the analysis. Descriptive statistics, such as mean, standard deviation, and coefficient of variation, are applied to measure financial performance and variability. while correlation analysis evaluates the strength of relationships between variables like net profit, EPS, and operational ratios, Gross Profit , ROI, ROE , current Ratio, Quick Ratio.

The scope of the study is broad, encompassing both financial performance and strategic behavior in the context of corporate financialization. While focused on Indian pharmaceutical companies, the research also incorporates global insights from markets such as the United States and China to contextualize regional differences in financial practices and regulatory environments. The study seeks to contribute to ongoing discussions about the balance between financial returns and reinvestment in innovation.

However, the study does acknowledge certain limitations. Reliance on secondary data may affect the granularity and completeness of the analysis. Regional and temporal factors may also limit the generalizability of the findings to other sectors or countries. Furthermore, while statistical tools provide strong correlation insights, establishing direct causality between financialization and innovation efficiency remains complex due to multiple influencing factors. Finally, qualitative factors such as leadership decisions, socio-political influences, and ethical considerations are beyond the scope of this study but warrant further exploration.

Data Analysis and Interpretation

The financial performance of five major Indian pharmaceutical companies—Sun Pharma, Lupin, Zydus Cadila Healthcare, Dr. Reddy's Laboratories, and Cipla—was evaluated across several key metrics from 2019–2024. The analysis began with Net profit data, revealing that Sun Pharma consistently reported the highest mean profit, indicating strong financial stability and growth. Dr. Reddy's also showed significant profitability but with high variability, suggesting exposure to financial volatility. Lupin's performance was particularly volatile, with losses in certain years, whereas Cipla exhibited the most consistent performance, as evidenced by its low standard deviation and coefficient of variation.

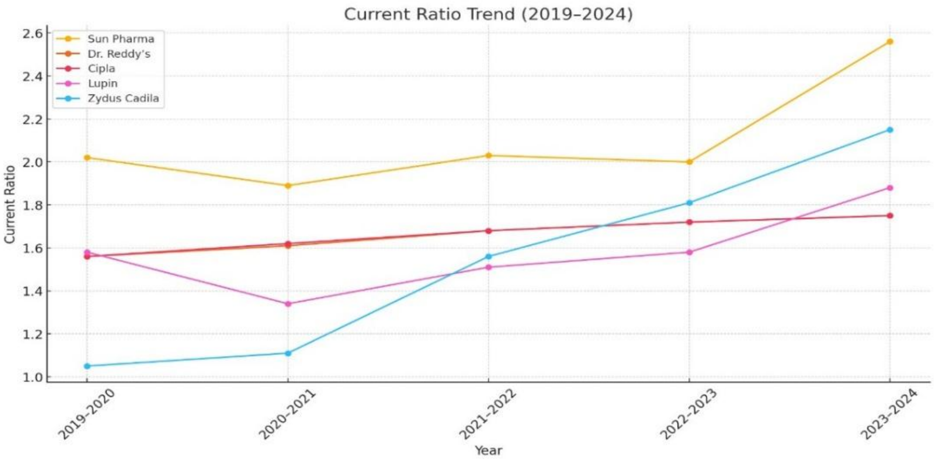


Interpretation:

Sun Pharma and Dr. Reddy's show consistent growth in net profits, reflecting strong financial health. Cipla maintains steady but moderate growth, indicating low-risk management. Lupin shows high volatility, with periods of loss and recovery. Zydus Cadila displays growth followed by a slight dip, raising concerns about long-term sustainability.

On a Gross profit basis, Sun Pharma again topped with the highest mean and standard deviation, indicating both strength and volatility in its revenue generation. Cipla, however, exhibited the lowest mean gross profit but also relative consistency. Dr. Reddy's, Zydus, and Lupin showed moderate growth, with standard deviations indicating stable but competitive performance. The figures tell us that greater revenue typically involves greater volatility, especially in firms that are experiencing rapid expansion or diversification of the portfolio.

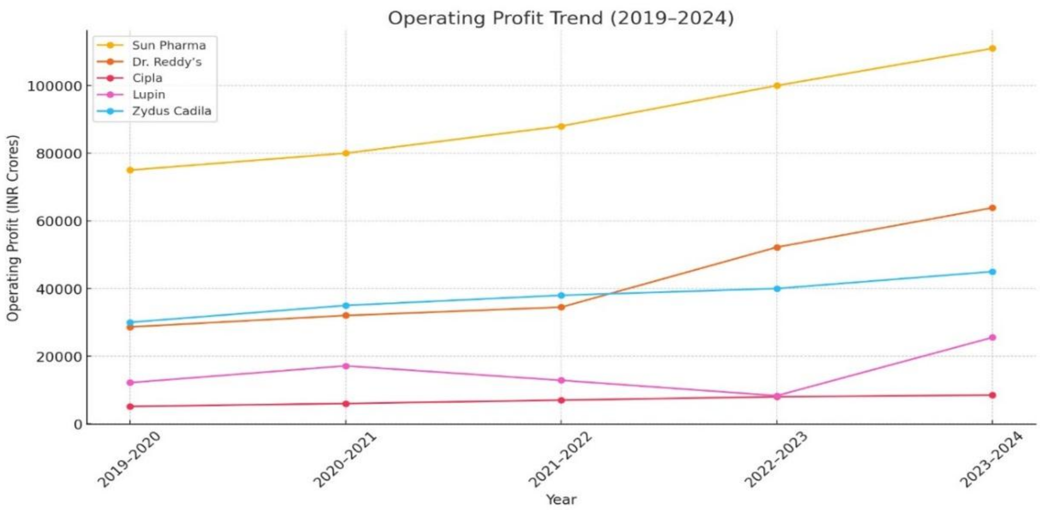
Liquidity was measured using the current and quick ratios. The highest average current ratio, which reveals good short-term financial health, was in Sun Pharma. Zydus Cadila, however, showed the greatest variance, which may indicate erratic liquidity. Both Dr. Reddy's and Cipla had consistently stable and highly correlated liquidity ratios, appearing to be financially well-balanced companies. The same pattern was visible in quick ratio analysis, wherein Zydus recorded the maximum values but at the same time also the most variability. Again, Dr. Reddy's and Cipla were noted for their financial stability, potentially being more suitable for risk-shy investors.



Interpretation:

Sun Pharma's current ratio steadily improves, showing enhanced liquidity. Dr. Reddy's and Cipla maintain stable ratios, reflecting reliable short-term solvency. Lupin shows improvement in later years, and Zydus Cadila demonstrates the most significant growth in liquidity, improving from 1.05 to 2.15.

Operating profit ratio trend highlighted Sun Pharma as an operational efficiency leader, and figures kept increasing steadily to □1,11,000 crores in 2023–2024. Dr. Reddy's came second with notable growth, particularly in the later years. Lupin was inconsistent in operating profits, while Zydus and Cipla had moderate but constant performance. Notably, Cipla was the most stable along this measure, with the lowest coefficient of variation, reflecting consistent operating performance despite lower revenue volume.



Interpretation:

Sun Pharma and Dr. Reddy's report strong and steady increases in operating profit, indicating efficient cost control. Lupin's fluctuating trend highlights operational instability. Cipla and Zydus Cadila show consistent improvements, though Cipla's progress is more gradual and risk-averse.

Lastly, the Earnings Per Share (EPS) data offered some understanding about shareholder value. Dr. Reddy's recorded the highest mean EPS with significant year-on-year volatility, highlighting high returns as well as vulnerability to swings in performance. Lupin's EPS also fluctuated significantly, indicating volatility, whereas Cipla and Sun Pharma had more stable patterns. Zydus Cadila indicated upward movement in subsequent years, reflecting better shareholder returns. On the whole, firms such as Cipla and Sun Pharma seemed to provide more stable returns, whereas Dr. Reddy's indicated high returns with matching risk levels.

This detailed study highlights the varied financial habits of India's leading pharma companies. Sun Pharma and Dr. Reddy's lead in scale and performance but with varying degrees of volatility. Cipla comes through as a stable performer, apt for long-term risk-averse investors. Zydus Cadila and Lupin have promise but are at present more vulnerable to fluctuations in performance.

Five big Indian pharma companies—Sun Pharma, Lupin, Zydus Cadila Healthcare, Dr. Reddy's Laboratories, and Cipla—were analyzed for their financial performance on various key indicators between 2019 and 2024. The examination of the companies was initiated from the net profit figures, where Sun Pharma had consistently reported the highest average profit, reflecting sound financial health and development. Dr. Reddy's registered strong profitability with immense variability, reflective of susceptibility to financial fluctuation. Lupin's performance was especially volatile, having losses during some years, while Cipla had the best consistent performance through its minimum standard deviation and coefficient of variation.

Its mean and standard deviation were again maximum in case of Sun Pharma regarding gross profit, indicating its robustness and variation in income generation. Its performance was relatively constant, on the other hand. Dr. Reddy's, Zydus, and Lupin showed moderate growth, with standard deviations indicating consistent but competitive performance. The data indicates that higher revenue tends to be associated with greater volatility, especially in firms that are rapidly expanding or diversifying portfolios.

Liquidity was measured by the current and quick ratios. Sun Pharma reported the highest average current ratio, reflecting robust short-term financial health. Yet, Zydus Cadila showed the greatest variation, implying inconsistent liquidity. Both Cipla and Dr. Reddy's had stable and closely similar liquidity ratios, both appearing as financially balanced companies. The same pattern was noted with the quick ratio analysis, where Zydus had the highest figures but also the most spread out. Both Cipla and Dr. Reddy's again appeared stable as financial entities, thus, by default, more likely to appeal to risk-averse investors.

Operating profit ratio analysis brought out Sun Pharma as a forerunner in operational efficiency, with a consistent increase in numbers peaking at □1,11,000 crores in 2023–2024. Dr. Reddy's came a close second, registering strong growth particularly in the later years. Lupin demonstrated inconsistency in operating profits, while Zydus and Cipla demonstrated moderate but consistent performance. Interestingly, Cipla was the most stable in terms of this measure with the lowest coefficient of variation suggesting uniform operational efficiency even on lower revenue volumes.

Lastly, the Earnings Per Share (EPS) figures gave an idea about shareholder value. Dr. Reddy's recorded the highest mean EPS with high year-on-year volatility, showing both high returns as well as susceptibility to performance fluctuations. Lupin's EPS was also very volatile, indicating volatility, whereas Cipla and Sun Pharma had more consistent trends. Zydus Cadila indicated an upward trend in subsequent years, reflecting shareholder returns improvement. In general, firms such as Cipla and Sun Pharma seemed to provide more stable returns, whereas Dr. Reddy's reflected very high returns with associated levels of risk.

This in-depth analysis highlights the varied financial performance of India's leading pharmaceutical companies. Sun Pharma and Dr. Reddy's lead by size and performance but have varying degrees of volatility. Cipla is a stable performer, ideal for long-term, risk-averse investors. Zydus Cadila and Lupin have promise but are presently more vulnerable to performance swings.

Conclusion

The study on corporate financialization in the Indian pharmaceutical industry highlights the dual impact of financialization strategies on listed pharmaceutical companies. While these strategies, including mergers and acquisitions, stock buybacks, and shareholder value maximization, can significantly influence the financial performance of firms, they also present challenges. The research indicates that financialization can enhance short-term profitability and increase returns for shareholders. However, it may also lead to a reduction in investments in critical areas like research and development (R&D). This shift in investment focus has the potential to hinder long-term innovation and negatively affect drug affordability, which are crucial for sustainable growth and public health. The findings of the study suggest that for pharmaceutical companies in India to achieve sustainable growth, it is essential to strike a balance between adopting financial strategies and ensuring consistent reinvestment in R&D activities.

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