

# CHAPTER I

## INTRODUCTION

Capital Structure and Dividend policy plays a major role in financial decision of every management or organization (Arif, 2018).The decision regarding the capital structure and dividend policy affects the financial position of the company and the firm value. The Capital Structure is a fusion of owner funds, other form of finance and debt capital. The fundamental issue is maintaining the correct balance between equity and debt (Abhijit Sinha,2017).The financial manager should strive to obtain the optimum capital structure. The capital structure is considered optimum when the market value of shares is maximum. Whenever the shareholder's return is maximized, the market value of the firm will also increase (Achmad Saiful Ulum,2021).A proper analysis and strategy is needed to make wise financial decisions.

The company's high financial efficiency and the contribution to the economy are both aided by the appropriate capital structure (Pandey, 2004). The dividend is one of the fundamental elements for enhancing the shareholders' wealth (Wiyarni,2023). The dividend is the income which has to be distributed to the shareholders out of the profit. Accordingly, on one hand, it serves the purpose of shareholders in a way providing those proper return whereas on the other hand it also serves the purpose of the management in a way as they can enhance the firm value (Shah.A et al.2017).

India is a fifth largest economy in the world. The GDP growth of India is projected at 6.5 percent (Reserve Bank of India,2023). Now it is being called a Bright Spot in the global economy. The pharmaceutical sector has made great progress toward enhancing public healthcare both in India and beyond. (The Economic Times, February 2023). The Proper decision regarding the capital structure and dividend policy will enhance the financial efficiency and firm value of this Industry (Rafie Akbar Sumarno & Doddy Setiawan,2023) The most important task of any organization is to arrive at a proper financing decision. Some of the most challenging financial decisions involve deciding on the best financing option and dividend policy decision (Banamtuan & Zuhroh,2020).Companies might finance their investments through internal or external sources. While external sources mostly involve the use of debt or equity, internal sources also include retained earnings and owner's funds. In general, they must choose when, where, and how to raise funds to satisfy the firm's investment requirements (Tarczyński et al. 2020).

## **1.1 CAPITAL STRUCTURE**

The management have two options for meeting its needs: debt financing or equity financing. Every company's principal purpose is to increase shareholder wealth. "Increasing leverage in capital structure will improve the firm's value and the market price of the share" (Durand, 1952). In 1958, Modigliani and Miller proposed the arbitrage process, wherein "the value of both levered and unlevered enterprises is equal under arbitrage process". There are numerous theories that can be used to solve the problem of capital structure selection. Pecking Order Theory was first anticipated by Myers (1984). He recommends that the company employ internal funds such as Surplus or Reserves, as well as Retained Earnings, to meet its long-term financial needs. During a financial crisis, they can use leverage in their Capital Structure and Equity Financing. Particularly, any modifications to the debt and equity does not influence the firm value, indicating that no capital structure is good or bad and that the value of the organization remains inappropriate to various levels of leverage (Modigliani & Miller, 1963). Debt Capital is also the most important component which is needed to raise the additional capital for its business (Baltaci & Ayaydin, 2014). As a source of debt carry a fixed charge as interest, thus it is essential to take utmost care. Because high leverage may hinder the growth and low leverage may prevent a firm from having tax benefit. The Decision regarding, whether to opt debt or not comes under the financial decision of the organisation.

### **Capital Structure and Firm Value**

The choice of an organization's capital structure is one of its most significant decisions (Aggarwal & Padhan, 2017). It should be done while the business continues to grow or whenever funds is required to cover capital expenditures. The companies and industries has variations in capital structure decision. On the one hand, it shows the irrelevance theory of capital structure in examining the firm value, while the other hand reveals how the capital structure affects the risk and the firm value (Graham et al. 2015). Before choosing from the various sources of funding, the finance management should take into account the ideal capital mix or the one that minimizes the capital cost (Cuong & Canh, 2012). Thus, this choice must be made whenever the sector needs financing for developments. When a capital structure increases a company's value, the optimal state can be obtained (Akhyar & Maimunah, 2023).

By issuing the preferred and common stock Equity increases with the industry, but debt is represented by factors like loans, notes payable, debentures, etc. Due to their dedication to the organization over a long period of time, equity investors are the true owners of the organization (Karim & Naeem,2021). However, the company's creditors are the debt holders. They don't have any long-term obligations because they were just concerned with getting their money and principal amount. Different industries and companies will choose different capital structures. The best capital structure should be chosen by the finance management because it affects the wealth of the shareholders (Pathak & Chandani,2021).The larger amount of debt may also lead to company bankruptcy. As a result, it is the most significant aspect of a company's success. Debt and equity are categorized as the company's main sources of funding (Nisha Prakash et al.2022).

A company may use various forms of debt, bonds, or other kinds of debt to finance a project (Chowdhury,2010).In Debt financing the interest is tax deductible and interest should be paid within a period of time and the financial distress is associated with debt (Dawar,2014). Furthermore, the equity financing means running the firm's financial operations and assets by issuing common and preferred shares.There is no necessity for timely interest payment etc (Hasan & Wahid,2021). Hence, it enhances more credibility to the business and it is less risky than debt funds.But the cost of equity is high compared to debt.So, the company has to decide the sources of funds in order to enhance the firm value and minimize the cost of capital

The firm value is independent and it does not depend on the capital structure. Under perfect capital market, with no taxes, no transaction cost (Modigliani and Miller, 1958).By developing a balance between the debt that are exempt from tax and the risk of cost of debt, the optimum capital structure can be attained as per the Trade off Theory. In Pecking Order Theory, the Firm utilize the internal funds such as Retained earnings and then Equity capital. It also anticipates the financial decision of the firm (Myers,1984).Every companies aim is to attain the maximum profit, shareholders wealth and maximum firm value. In order to enhance the firm value, the shareholder welfare is the most important part (Maimunah et al.2023).It is stated as a perception or point of view from investor in examining the company's financial efficiency. If the company has good financial efficiency, so that the shares will attract the investors. When the demand for the shares increases, the share price and firm value will also increase (Sufiyati,2023).

## **1.2 DIVIDEND POLICY**

The main aim of any financial management is to maximize its value and the shareholders wealth by the distribution of dividends(Sumathi Kumaraswamy et al.2019).Dividend Policy refers to the norms that every company follows to decide how much of the dividend should be paid. The choice of paying dividends is decided by the board of directors of the company (Bokhtiar Hasan, et al.2021).There are various forms to pay dividends - in the form of cash once or twice in a year.

From an investor perspective, not only the dividend payment is important but also the stability of dividend payouts (Faraz, et al.2017).The unstable dividend policy may be adverse for the investors opinion about the company performance.If the dividends are key indicator of share price, so to maximize the shareholders wealth, the company should adopt a dividend policy that will increase the share price as well as the firm value (Anton,S.G.,2016). When the company is generating higher profits, they can decide whether to retain the profits for future investment or dividend payouts.When a company's value increases, it will the enhance the confidence of the company managers, as it increases the quality of products among the investors and the public.The business executive's goal is to attain the good reputation for their company followed by the increase in share price, because a high company value will enhance the welfare of the shareholders (Tahar Tayachi, et al.2023).

### **1.2.1 Dividend Policy and Firm Value**

The dividend policy determines how much profit will be distributed to the shareholders.The decision-making process for dividend payments is crucial because it determines whether cash flow will be distributed to investors or reinvested by the business (Rosa and Hasnawati,2020).The dividend policy of each corporation determines how much is paid out in dividends. Dividend Payout Ratio (DPR) is a common way to show the Net Income After Tax.The stock price will rise if a substantial dividend is paid, increasing the Firm's value (Agung, et al.2021). When the company has higher growth in their business operations, they concentrate more on accumulating funds for further business operations than the dividend payouts. But when company is at its maturity stage, their retaining of funds may not be huge, the dividend distribution can be increased. Maintaining a proper dividend will be attracting the investors to invest in the company, so the firm value automatically increases (Handriani,2018).The investments made from the

dividend policy has a positive viewpoint about the company's future, which also has an optimistic impact on the firm value (Fama & French, 1998). Increased dividend payments will be an advantage to the company's owners or shareholders (Ilhamsyah & Soekotjo,2017).

The proper financial management is one of the ways to achieve the company value. When the financial decisions are taken by the manager, it also has an impact on the value of firm, which also increases the wealth of shareholders. The investors will invest in a company, basically to generate dividends. When the value of a company is higher, it will be better in the society. Investors use profitability to measure the company value (Ukpong & Uke,2023).It is a attracts the investors because, it gives the result of managing the money invested by the investors and it also reflects the distribution of profits. As the higher the dividend is distributed to investors to obtain the shares of the company, as it enhances the firm value (Isnalita,2018).

### **1.2.2 Capital Structure and Dividend Policy**

The firm's capital structure is a mix of debt and equity. It shows how the assets of a firm is operated through this capital structure decision (Nenavath Sreenu,2019). The firm's should try to maintain the certain level of leverage which is more beneficial for investors and the firm. The optimum capital structure is difficult to attain. Because, there are many factors which influence the capital structure which includes firm's profitability, growth, tangibility, liquidity and dividend payout etc (Asad Abbas et al.2001). At the year ending, the management need to undertake certain decision related to distribution of firm's profits. The company has to decide whether to distribute all the earnings or to retain a part of the earnings (Rehman,2016).

The dividend decision of the company depends on certain factors they are known as determinants of dividend policy. These factors include Firm's profitability, Liquidity, Return on Asset, Return Equity, Earnings per share etc. Capital Structure and Dividend Policy both are related with each other. The positive association between the capital structure and dividend policy will influence the firm value. Milbourn et al.(2006) reveals that the high leverage company has a good control on decisions, which leads to the increase in the performance of the firm. Meanwhile, the low leverage may lead to decrease in the share price. High leverage leads to better performance of the company. It states that dividend policy and determinants of capital structure has a positive association.

The majority of empirical studies shows a negative relationship between leverage and dividend payout in various markets, including the United States, India, Pakistan, Vietnam, Indonesia, and Latin America (Jensen et al.1992; Kumar,2006; Afza & Mirza, 2010; Vo & Nguyen, 2014; Mulyani et al. 2016).The companies with a large number of debt must pay a high interest and might not be able to pay out the better dividends. Leverage and dividends can be used as alternative monitoring strategies to reduce free cash flow that can be aligned by managers based on the agency theory (Rozeff,1982; Jensen et al. 1992; Gonzalez et al.2017).

### **1.3 PHARMACEUTICAL INDUSTRY IN INDIA**

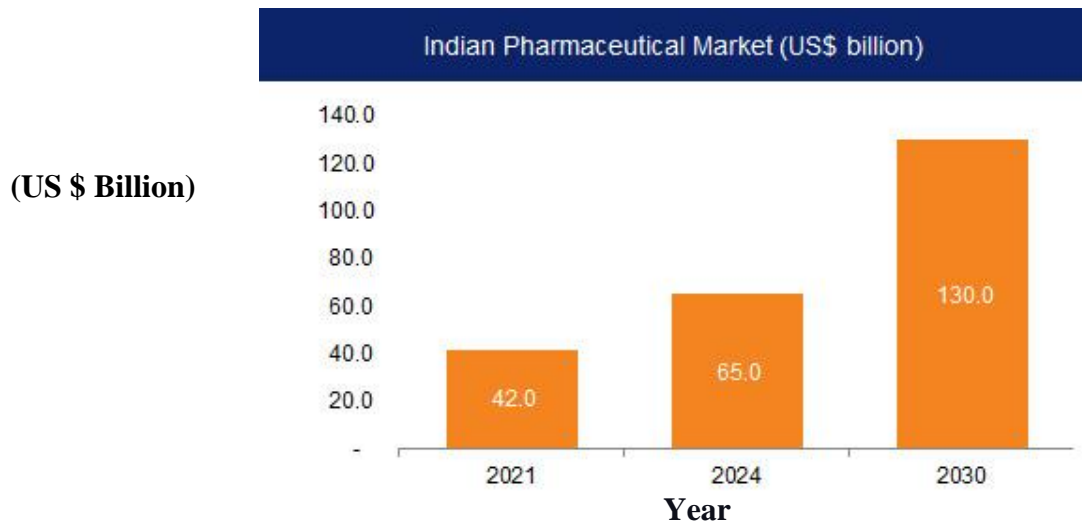
In the global pharmaceutical industry, India is a significant contributor. The country possesses a big pool of scientists and engineers capable of propelling the country to new heights. India is in third position in terms of both volume and value. The country's domestic pharmaceutical industry is well-established, with a solid infrastructure of 10,500 production units and 3000 pharmaceutical companies. India was hailed as the “Pharmacy of the World” in December 2022, because of its effective production of "Global Standard Medicine" for affordable prices ([www.ibef.org](http://www.ibef.org)).This industry is driven by cost-effective innovation when it comes to mass production of life saving drugs that are used by many countries globally ([www.expresspharma.in](http://www.expresspharma.in))

During the Covid-19 pandemic, India was at the forefront of delivering essential drugs and vaccines to several nations. According to available data, India exported Rs.5.84 crores worth doses of Covid-19 vaccines to 70 countries as of March 2021 ([www.ibef.org](http://www.ibef.org)). It is the greatest exporter of pharmaceuticals and medical supplies in the world. 6.6% of India's overall merchandise exports come from the pharmaceutical industry.

India had given to 71 countries Rs.586.4 lakh value of COVID 19 immunizations as of May 2021. India has exported pharma goods to more than 200 nations worldwide. The pharmaceutical industry has become a popular destination for foreign investors and Indian Pharma had an unprecedented surge of FDI Inflows of 200 percent in 2020-21 ([www.economictimes.com](http://www.economictimes.com)).Because of the COVID-19 crisis, according to industry experts, India's pharmaceutical industry had attracted increased attention from all around the world, and FDI inflows have solidified India's reputation as a vital international investment destination. ([www.expresspharma.in](http://www.expresspharma.in)).

### Exhibit 1

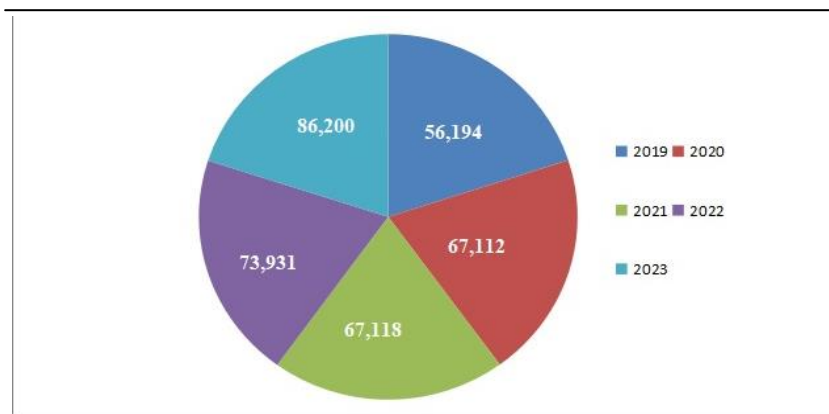
#### Indian Pharmaceutical Sector Market Size forecast from 2021 to 2030



(Source: [www.ibef.org/industry/pharmaceutical-india/2022](http://www.ibef.org/industry/pharmaceutical-india/2022))

### Exhibit 2

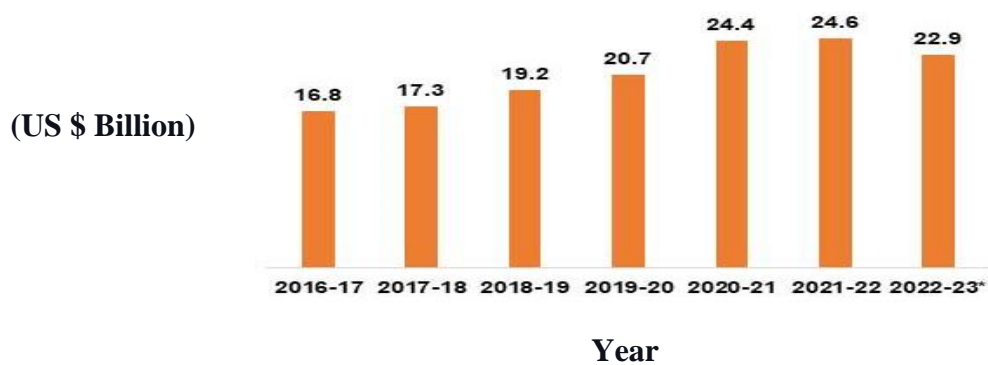
#### Government Expenditure on Health in India (US \$ Billion) from 2019-2023



(Source: [www.prsindia.org/2023](http://www.prsindia.org/2023))

### Exhibit 3

#### Pharmaceutical Industry Export from India from 2016-2022



(Source: [www.ibef.org/industry/pharmaceutical-india/2023](http://www.ibef.org/industry/pharmaceutical-india/2023))

There were several initiatives taken by Indian Government to reduce the healthcare cost. The generic pharmaceuticals remained a priority and it helps the Indian Pharmaceutical companies to a great extent. They gave utmost importance and priority to rural health programmes and life saving medications produced by the Pharmaceutical firms.

#### **1.4 AVERAGE MARKET CAPITALIZATION**

The sample of research study was categorized as Large Capital Companies, Mid Capital Companies and Small Capital Companies. The average market capitalization is arrived by multiplying the number of outstanding shares with the stock price per share (Pandey, 2015).

##### **1.4.1 Large Market Capitalization**

A corporation with market capitalization more than Rs.20,000 crores are classified as a large capital company. Every large capital company is listed in the top of recognized stock exchange indices worldwide. The top fifty large capital stocks in India which are mostly traded in BSE and NSE. These stocks were known as Blue Chip Stocks (India Infoline Finance Limited, 2022). The company which comes under this category is very stable and they dominate the industry. The stocks of these companies were less volatile compared to mid capital and small capital companies (www.amfiindia.com, 2022). The select large capital companies of Pharmaceutical Industry are listed below:

##### **1. Sun Pharma**

Sun Pharmaceutical Industries is a public limited company. It is founded by Dilip Shanghvi and it was started in 1983. It was headquartered in Mumbai, Maharashtra, India. The company manufactures active pharmaceutical ingredients and formulations beyond 100 countries in the world. The exports value was of Rs.120.5 million in 2022. The company has a sales revenue of Rs.290,403 million in the year 2022. Managing Director of the company was Dilip Shanghvi. There are 37000 & above employees in 2021. There are manufacturing units across 44 global locations - in Asia, India, USA, Africa, Australia and Europe. They have been awarded Golden Peacock Award for Corporate Social Responsibility in 2021. Website: www.sunpharma.com.

## **2. Divi's Labs**

Divi's Laboratories Ltd is an Indian Pharmaceutical public limited company. It is founded in 12 October 1990 by Murali Divi. It was headquartered in Hyderabad, Telangana, India. It manufactures generic APIs, Intermediates and Nutraceutical Ingredients. The exports value was Rs.13.6 Billion in the year 2022. The sales revenue is Rs.6861.14 million in the year 2022. Managing Director of the company is Murali Krishna Prasad Divi. There were 13884 employees in 2020. It manufactures and sell products nearly in 95 countries across world. It was awarded the "Excellence Award in Environment, Health & Safety" in 2022. Website: [www.divislabs.com](http://www.divislabs.com).

## **3. Dr.Reddy Labs**

Dr.Reddy Laboratories is an Indian Pharmaceutical Company. It was headquartered in Hyderabad, Telangana, India. It was founded by Kallam Anji Reddy in 1984. It manufactures wide range of pharmaceuticals in India and it sells nearly 50% across India. The sales revenue of Rs.13,349.10 Cr in 2021 and exports products to more than 100 countries worldwide. Managing Director of the company is G.V.Prasad. There were 21,650 employees in the year 2020. To manufacture the drugs, the company has 190 medications and 60 active pharmaceutical ingredients and biotechnology products. They have been awarded "API Supplier of the year" in 2021. Website: [www.drreddylabs.com](http://www.drreddylabs.com).

## **4. Cipla Limited**

Cipla Ltd is a Pharmaceutical organization in India. The headquarters was in Mumbai, India. It was founded by Khwaja Abdul Hamied in 1935. It manufactures Pharmaceutical & Personal Care products and export sales value of Rs. 4948 Cr. The sales revenue of the company is Rs.13,900.58 Cr in the year 2021. Managing Director of company is Umang Vohra and has 22,036 employees in 2020. It has 34 manufacturing units in 8 locations across India. They have been awarded as "Best Governed Company Award" in 2021. Website: [www.cipla.com](http://www.cipla.com).

## **5. Aurobindo Pharma**

Aurobindo Pharma Ltd is a pharmaceutical multinational corporation based in India. Hyderabad, India was the company's headquarters. It was founded by V.Ramprasad Reddy in 1986. They manufacture generic Pharmaceuticals & Active Pharmaceutical

Ingredients and exports over 125 countries across the world. The sales revenue of Rs.23,290 crores in 2020. Managing Director of the company is N.Govindarajan and there were 23,000 employees in 2020. It has been awarded CSR Leadership Award in 2020. Website: [www.aurobindo.com](http://www.aurobindo.com).

## **6. Torrent Pharma**

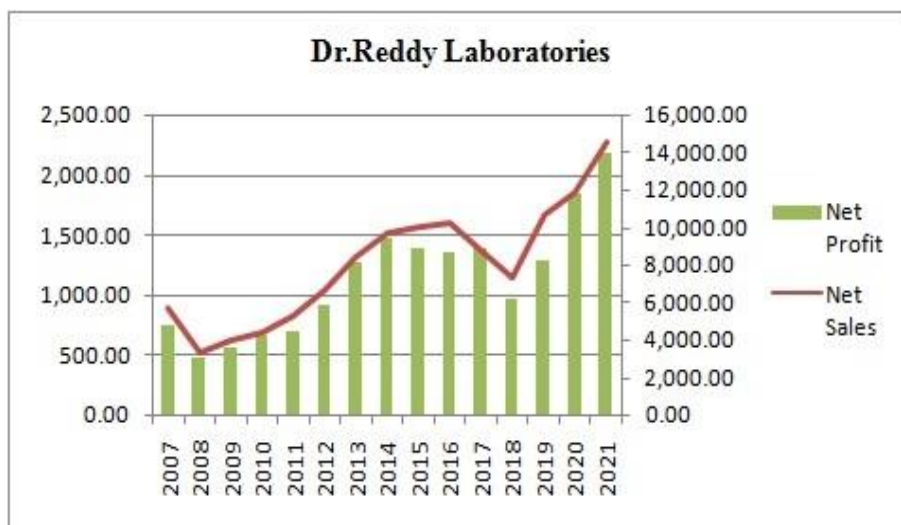
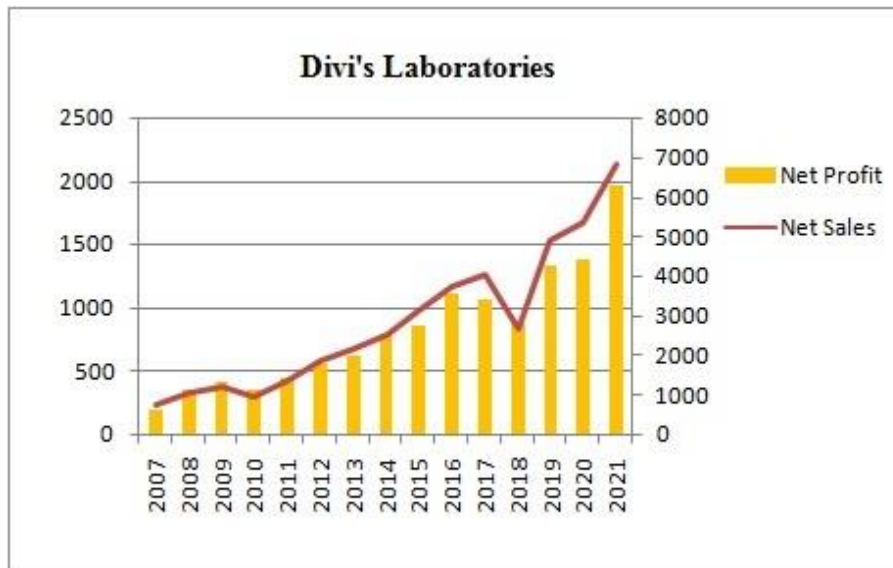
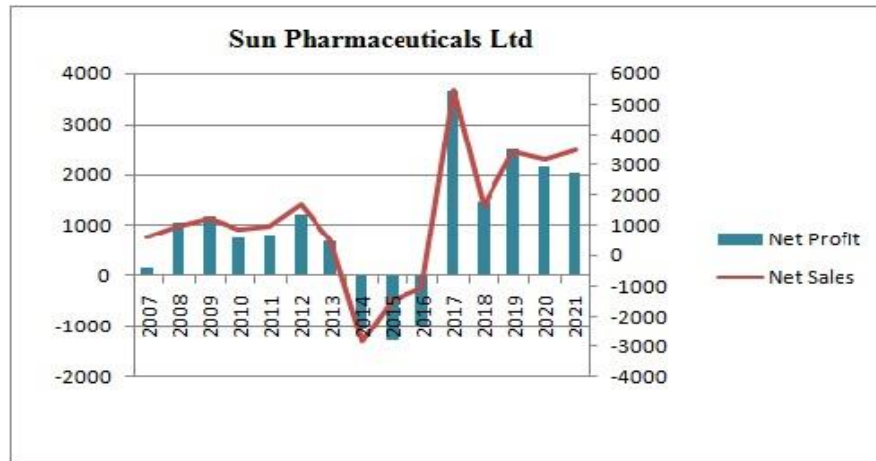
Torrent Pharmaceuticals Ltd is an Indian pharmaceutical company. It was created by U.N.Mehta in 1959 and was headquartered in Ahmedabad, Gujarat, India. It manufactures Generic Drugs, Diagnostics, and Animal Health. It exported a sales value of Rs.6,569 Cr and has a sales revenue of Rs.7900 Cr in 2020. The Managing Director of the company is Mr.Jinal Mehta, and they had employees of 12,881 in 2020. It operates in more than 40 countries across India. Its focus is on gynecology and pediatric segments. It was awarded Udyog Ratna Award in 2020. Website: [www.torrentpharma.com](http://www.torrentpharma.com).

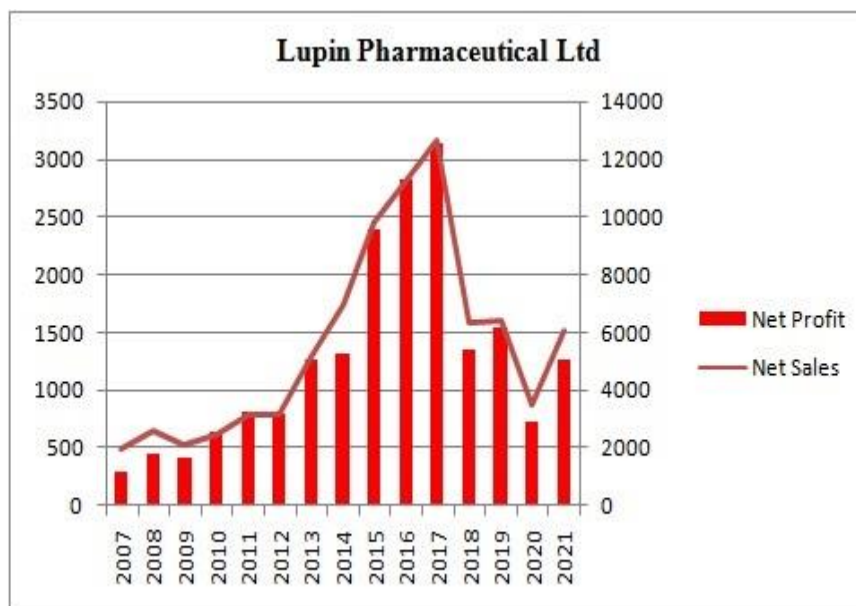
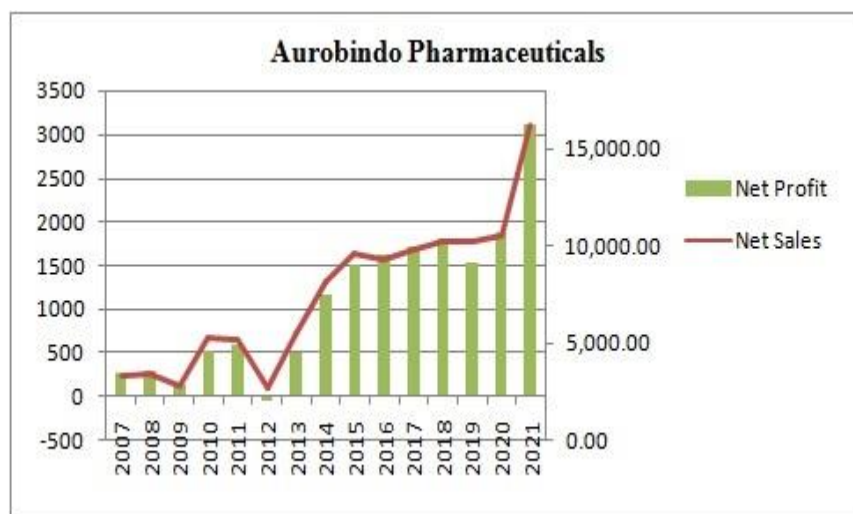
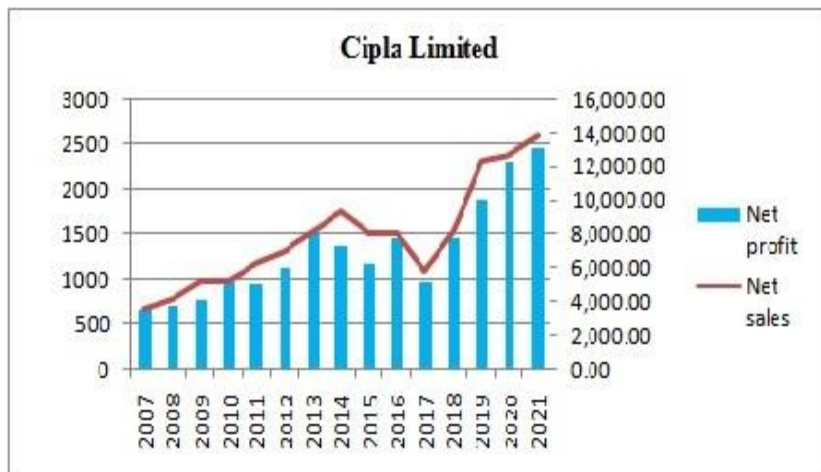
## **7. Lupin Pharma**

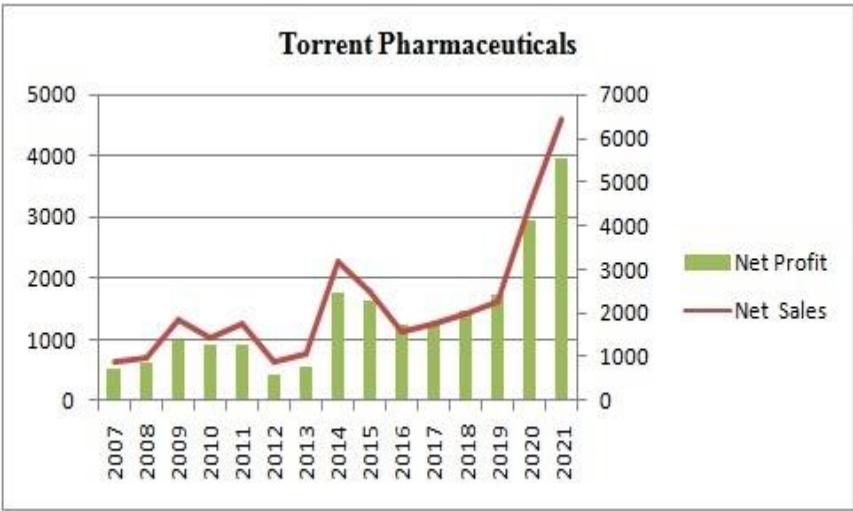
Lupin Pharma is a Public Ltd Pharmaceutical Company, headquartered in Mumbai, India. Desh Bandhu Gupta founded in 1968. It manufactures Paediatrics, Cardiovascular, Anti-infectives, Diabetology, Asthma, and Antituberculosis medicines. It has exports sales value of Rs.16.28 Cr and has a sales revenue of Rs.1,50,250 Cr. Managing Director of the company is Sandeep Singh. It has 15,357 employees in the year 2021. It offers world-class manufacturing facilities across India, USA, Mexico, and Brazil. They have been awarded as “Noteworthy Project” under the “Beyond the Fence” category. Website: [www.lupinpharma.com](http://www.lupinpharma.com).

### Exhibit 4

### Large Capital Companies Net Sales and Net Profit/Loss (2007-2021)







## **1.4.2 Mid Capital Companies**

The market capitalisation of mid capital enterprises is between Rs.5,000 Cr and Rs.20,000 Cr. It tends to be more volatile. They can also be changed into large capital companies and can also offer higher growth than large cap companies during long run. Hence many investors were interested in such companies ([www.amfiindia.com](http://www.amfiindia.com), 2022).The select Mid capital companies are listed below:

### **1. Alkem Labs**

Alkem Laboratories Ltd is a Pharmaceutical Company based in India. Its headquarters were in Mumbai, Maharashtra, India.Samprada Singh founded in 1973. It manufactures Formulations, Pharmaceutical generics and Nutraceuticals in India. The company is focused on high quality. In terms of domestic sales, it is India's seventh largest pharmaceutical company. It had a sales revenue of Rs.84,485 Cr and an export sales value of Rs.15,917.1 Cr in 2021.It has been awarded as “India’s Best Workplace in Bio-Technology & Pharmaceutical Industry” in 2021. Website: [www.alkemlabs.com](http://www.alkemlabs.com).

### **2. IPCA Labs**

IPCA Laboratories Limited is an Indian Pharmaceutical public limited company. K.B.Mehla and Dr.N.S.Tibrawala are the founders of IPCA Labs. It was headquartered in Mumbai, India, in 1949. It manufactures Acetylthiophene and P-Bromo Toluene as Active Pharmaceutical Ingredients. The managing director of the company is Premchand Godha. It has 12000 employees. It produces over 36 countries in Asia and Africa. It exports over 120 countries. It has a sales revenue of Rs.15.59 Cr and exports sales value of Rs.11,598 Cr in 2022. It has been awarded as Association of Business Communicators of India in 2021.Website: [www.ipcalabs.com](http://www.ipcalabs.com).

### **3. Glaxosmithkline Labs**

Glaxosmithkline is an Indian pharmaceutical company. It was headquartered at Mumbai, Maharastra, India.Sridhar Venkatesh founded it on 13th November 1924. The world’s sixth-largest Pharmaceutical company.They manufacture Oral Healthcare, Nutritional products, and over-the-counter medicines. The managing Director of the company is Bhushan Akshikar. It has employees of 4323 in the year 2021. The sales revenue of the company is Rs.3,309 Cr and exports sales value of Rs.24.2 Cr. The

company has invested in scientific technology to launch a pipeline of new products for the patients. It has been awarded as “Best Sales and Operations Planning Practice in Pharma” in 2019. Website: [www.glaxosmithklinepharma.com](http://www.glaxosmithklinepharma.com).

#### **4. Ajanta Pharma**

Ajanta Pharma is a multinational Pharmaceutical public limited company in India. The founder of the company is Madhusudan B Agarwal. It is headquartered in Mumbai, Maharashtra, India. It was manufacturing and marketing pharmaceutical formulations. They have a sales revenue of Rs.2,916 Cr and exports sales value of Rs.563 Cr. This company mainly produce medicines for cardiology, Pain Relief and Dermatology. Yogesh Agarwal is a managing director of the company. There were 7035 employees in the year 2021. It exports medicines beyond 30 countries across Asia and Africa. It was awarded Young Maker of the Year in TIME India awards (2016). Website: [www.ajantapharma.com](http://www.ajantapharma.com).

#### **5. Glenmark**

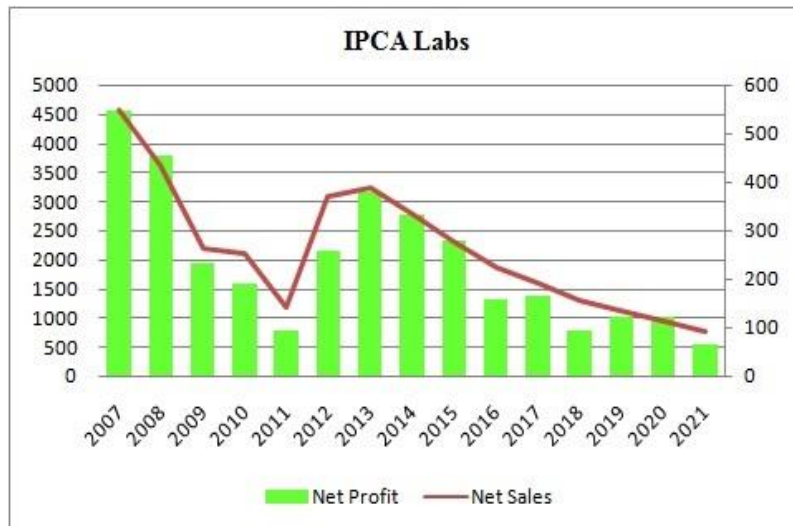
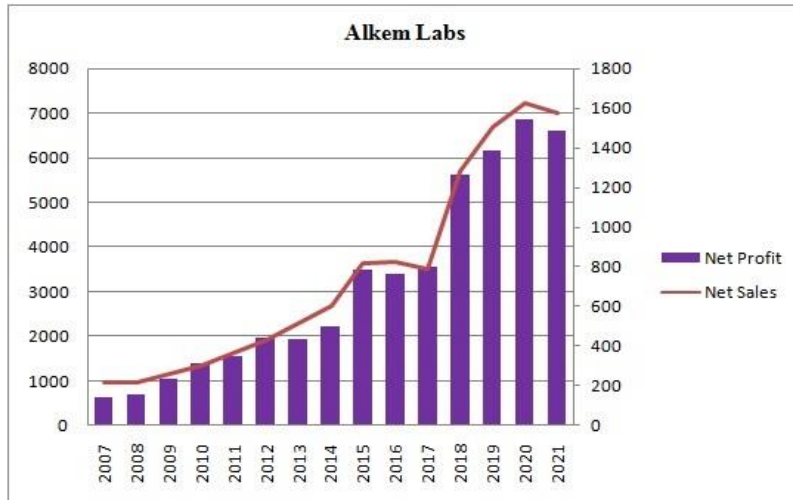
Glenmark Pharmaceuticals Ltd is a Pharmaceutical company is based in India. The company's headquarters were in Mumbai, India. Gracias Saldanha is the founder of company in 1977. The Managing Director of the company is Glenn Saldanha. There were 6100 employees in the year 2021. They manufacture Generic Drugs and Active Pharmaceutical Ingredients. The company is the fifth-largest pharmaceutical company in India. It has a sales revenue of Rs.7567.93 Cr and exports value of Rs.154 Cr in 2020. It also sells products in India, Russia, and Africa. It has been awarded “India Pharma Innovation of the year.” Website: [www.glenmarkpharma.com](http://www.glenmarkpharma.com).

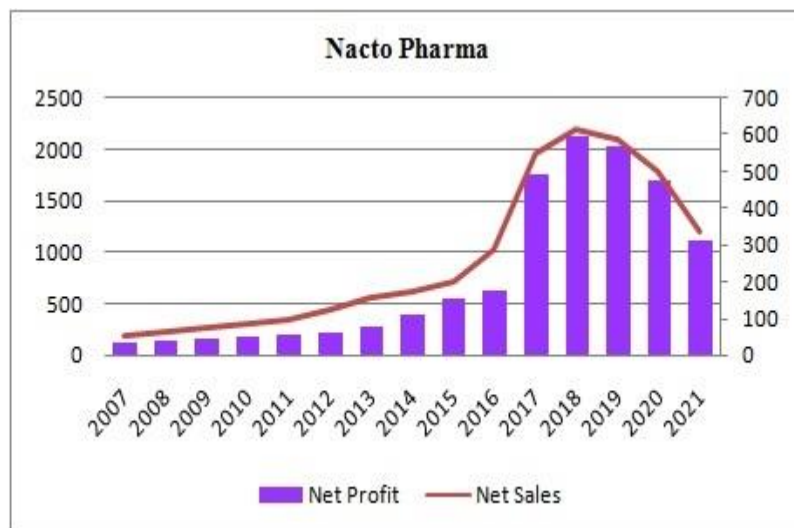
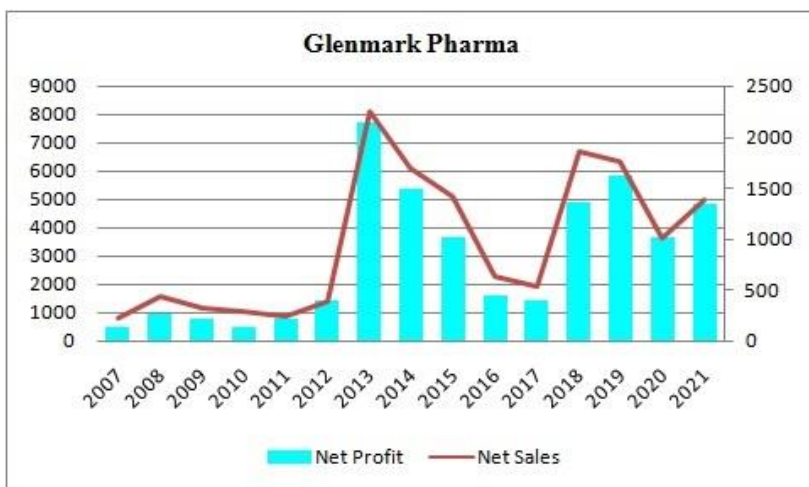
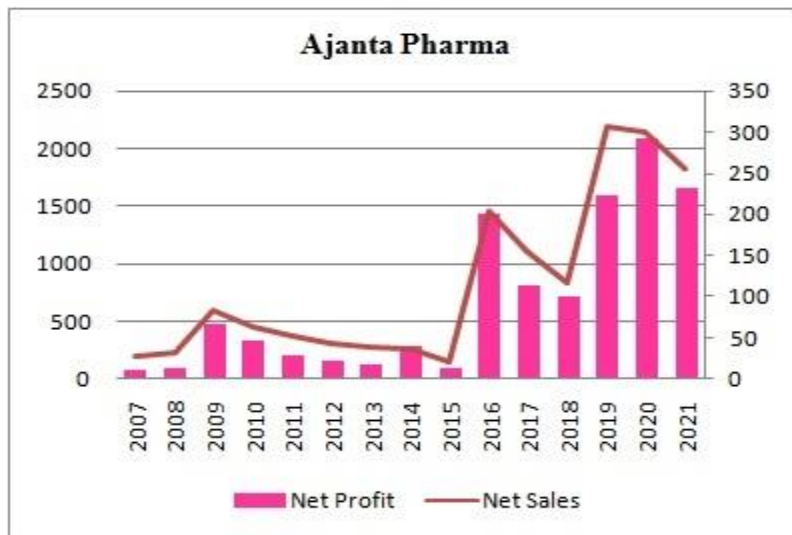
#### **6. Nacto Pharma**

Nacto Pharma is a Pharmaceutical corporation in India. Hyderabad, Telangana, India was the company's headquarters. It was founded in 1981 by the managing director V.C.Nannapaneni. There were around 5046 employees in the year 2021. They manufacture Active Pharmaceutical ingredients and Crop Health Science products. It was specialized in manufacturing complex medicines at reasonable prices. Nacto launched its crop health sciences division in 2019. It has a sales revenue of Rs.1653.50 Cr and exports products to more than 40 countries globally. It was awarded the “Corporate Governance Award” for 2021. Website: [www.nacto-pharma.com](http://www.nacto-pharma.com).

### Exhibit 5

### Mid Capital Companies Net Sales and Net Profit/Loss (2007-2021)





### **1.4.3 Small Capital Companies**

The market capitalization of Small Capital Companies, have less than Rs:5000 crores. The companies are relatively minor in size and have significant potential to grow rapidly. The company's stock is volatile, and prices can swing considerably. They were relatively new start-ups or businesses that are still in the development stage (www.amfiindia.com, 2022). The select Small Capital Companies are listed below:

#### **1. Aarti Drugs Ltd**

Aarti Drugs is a leading pharmaceutical company in India, which manufactures bulk drugs and speciality chemicals. It was founded by Shri Prakash and incorporated on 28th September 1984 as a private limited company. The Managing Director of the company is Prakash M Patil. It has nearly 1450 employees in 2021. The company engaged in manufacturing of Pharmaceuticals. They are having R&D centre at Mumbai. Their products include Active Pharmaceutical ingredients and speciality chemicals. It has sales revenue of Rs.1914.89 Cr and Export sales worth of Rs.2200 Cr in 2020. It has been awarded as FICCI Chemicals and Petrochemicals Award in 2021. The company's intermediaries in the International markets enabling it to mark a definite global presence. It exports over 100 countries across world. Website: [www.aartidrugs.com](http://www.aartidrugs.com)

#### **2. Orchid Chemicals & Pharmaceuticals**

Orchid Chemicals & Pharmaceuticals Ltd is a Pharmaceutical organization headquartered in Chennai, Tamil Nadu, founded on 1st July 1992. The founder is Kailasam Raghavendra Rao. The Managing Director is Manish Dhanuka. It has 1395 employees in 2020. It manufactures products like Amlo, Amit 50 mg tablet and Pharmaceutical Ingredients. In 1992, they have obtained a certificate for commencement of business. It has a workforce of over 1136 employees in 2021. The sales revenue of the year 2021 is Rs.450.69 Cr and export products across 40 countries worldwide. It is awarded "Certificate of Merit for Excellence in Management of Safety, Health & Environment" in 2008 by "Indian Chemical Council (ICC)". Website: [www.orchidpharma.com](http://www.orchidpharma.com).

### **3.IOL Chemicals & Pharmaceuticals Ltd**

IOL Chemicals and Pharmaceutical limited operates as a generic Pharmaceutical Company. It is a Public Limited Company. It is headquartered in Ludhiana, Punjab, founded in 1986. The Managing Director is Varinder Gupta, and there were 2300 employees in the year 2021. It manufactures Bulk Drugs, Active Pharmaceutical Ingredients, Speciality Chemicals and Organic Chemicals. It produces and supplies industrial chemicals. The company's sales revenue is Rs.555.14 crores and export sales value of Rs.15 crores. The Company has its presence in over 40 countries across the world. It was awarded for “National Energy Conservation” in 2014. Website: [www.iolchemicals.com](http://www.iolchemicals.com).

### **4.Amrutanjan Healthcare Limited**

The Amrutanjan Healthcare Ltd is a public limited company situated in Mylapore, India. India. Kasinadhuni Nageswara Rao is the founder of the company in 1893. The managing director of the Company is S Sambhu Prasad. The Company has 647 employees in the year 2021. Its main product is pain balm. It also contains Amrutanjan Infotech, a software firm. The sales revenue of Rs.331.55 Cr, and the company sell products all over India. It is planning to expand to the US and European markets. It was awarded Gold award from Reader’s Digest in the Health and Personal care category in 2019. Website: [www.amrutanjan.com](http://www.amrutanjan.com)

### **5.Novartis India Ltd**

Novartis India Ltd is an Indian Pharmaceutical Public Limited Company. It was founded by Sanjay Prabhakar, and headquartered in Mumbai, Maharashtra, India at 1947.It is mainly focused on the Manufacturing and Marketing of Drugs for people and animal health. The managing Director is Sanjay Murdeshwar and there are 539 employees in 2021.The sales revenue of Rs.381.35 Cr and export products to Pakistan and ships its consignment mainly to Karachi. It manufactures and sells products to Maharashtra and other places in India. It was awarded as “Best People Development Program” in 2020.Website: [www.novartisindia.com](http://www.novartisindia.com).

## **6.Bliss GVS Pharma**

Bliss GVS Pharma is a publicly traded company with its headquarters in Mumbai. It was founded by Mr.Gautam Ashra, in 1984.The managing director is Mr.S.N.Kamath and there were 666 employees in 2020.It manufacture and markets products in more than 60 countries. Their products were Suppositories and Injections, Tablets, Sachets and Suspensions. The sales revenue of the Company is Rs.465.51 Cr. The company sell products to other places in India. The manufacturing plants of the company act by the international standards. In 2014, the company had received an award from Indian Government.Website: [www.blissgvspharma.com](http://www.blissgvspharma.com)

## **7.SMS Pharma**

SMS Pharmaceuticals Ltd is one of India's Indian Pharmaceutical Public limited company. It is founded by Shri Ramesh Babu Potluri on 14 December 1987 and is headquartered in Hyderabad,Telangana,Managing Director of the Company is Shri Ramesh Babu Potluri and there were 806 employees in 2021. It manufactures active pharmaceutical ingredients and generic medicines. It supplies products to over 70 countries. It is a listed company having ever appreciating international and domestic customer relationships. The company's sales revenue is Rs.563.18 Cr, and the exports sales value of the Company is Rs.263 Cr. They were awarded as “India Pharma Bulk Drug Company of the year” in 2015.Website: [www.smspharma.com](http://www.smspharma.com).

## **8.Anuh Pharma**

Anuh Pharma is an Indian Pharmaceutical Public Limited Company in India.Bipin Shah is the founder at February19,1960 and headquartered at Mumbai, Maharashtra, TamilNadu. The Managing Director of the Company is Ritesh Shah and there were 178 employees in 2021. They manufacture Antibiotics, Chloramphenicol, Active Pharmaceutical Ingredients. The production capacity of Antibiotics increased from 400000 Kg to 600000 Kg. It supplies products across the country. The sales revenue of Rs.431.96 Cr and the export sales value of Rs.9834.94 lakhs. They were awarded the “Outstanding Exporters Award” in the year 2011.Website: [www.anuhpharma.com](http://www.anuhpharma.com).

## **9.Lincoln Pharmaceuticals**

Lincoln Pharmaceuticals is an Indian Pharmaceutical Public Limited Company. It was founded by Mr.Rajni G.Patel in 1979 and is headquartered at Ahmedabad, Gujarat, India.The Managing Director of the Company is Shri Mahendrabhai Patel. They manufacture products like Gelatin Capsules, Dry Syrup, Oral & Topical spray formulations.There were 1500 employees in the year 2021.The Company is intensely research focused and has a program for developing healthcare professionals and patents. The Company's sales revenue is Rs.413.06 Cr and the Export sales value of the Company is Rs.174.7 Cr. The Company has been awarded by “Indian Drug Manufacturer’s Association (IDMA) with Corporate Citizen Award” in 2019. Website: [www.linclonpharma.com](http://www.linclonpharma.com).

## **10.Kappac Pharma**

Kappac Pharma is a Major Pharmaceutical Company in India. It is founded by Arun Bhanubhai Vaghasiya. It was incorporated in 14 August 1981 and is headquartered at Mumbai, Maharastra.The Managing Director is Arun Bhanubhai Vaghasiya. They manufacture Pharmaceutical products like Capsules, Tablets and Syrup. There were 1400 employees in 2021. The Company is counted as one of the top contributors to the pharmaceutical industry in the country.The sales revenue of Rs.2.17 Cr and Export sales value of Rs.1.30Cr. The Company was given “Best Employer Award” by World Sustainability Forum in 2021.Website:[www.kappacpharma.com](http://www.kappacpharma.com).

## **11.Jenburkt Pharma**

Jenburkt Pharmaceuticals limited is a pharmaceutical public limited company. It was incorporated on 10 June 1985 and headquartered in Mumbai, Maharastra, India. The Managing Director is Mr.Ashish U.Bhuta and there were 680 employees in the year 2021. The Company is engaged in manufacturing and marketing high quality pharmaceutical formulations and healthcare products across 13 countries. They have strong manufacturing facilities to cater to both domestic and international markets. The sales revenue of Rs.15.09 Cr and export sales value of Rs.16.50 Cr. The Company has been awarded the “Pharma Excellence Award” in 2020.Website: [www.jenburktpharma.com](http://www.jenburktpharma.com).

## **12. Brooks Laboratories Ltd**

Brooks Laboratories Ltd is a Pharmaceutical Company. It was located at Mumbai, Maharashtra, India and incorporated on 23 January 2002. Managing Director is Rajesh Mahajan and there were 376 employees in 2020. They manufacture molecules in Injectables, Tablets and Dry Syrups supported by Research & Development centre at Baddi, Himachal Pradesh. It manufactures and markets Pharmaceutical products nationally & internationally to all regulated markets. The sales revenue of the Company is Rs.77.07 Cr and the export sales value of Rs.1846.23 Lakhs. The Company has been awarded “Best Business International” for “Outstanding Business Achievement” in 2017. Website: [www.brookslabs.com](http://www.brookslabs.com).

## **13. Kilitch Drugs**

Kilitch Drugs is a public limited company based in India. It was founded in 1978 and had its headquarters in Mumbai, Maharashtra, incorporated in 1978 and founded by Late Mr. Pratap Mehta. Managing Director of the Company is Mukund P Mehta and there were 553 employees in the year 2021. It manufactures products like Vitamin C, Calcium Tablets and Dry Powder Injection. The Company is one of the largest antibacterial parenteral formulations and sterile liquid formulations in small volume in India. The sales revenue of Rs.70.02 Crores (2021) and the export sales value of Rs.50.63 Cr. It has been awarded as “Pharmexcil Outstanding Exports” in 2020. Website: [www.kilitchdrugs.com](http://www.kilitchdrugs.com).

## **14. Coral Labs**

Coral Laboratories limited is fastest growing Pharmaceutical Company. It was incorporated in March 1994 and headquartered in Mumbai, Maharashtra, India. Managing Director of the Company is Ruchi Anjaria with 151 employees in 2021. It has sufficient and required facilities to manufacture pharmaceutical products which are safe and secure. They manufacture products like Tablets, Capsules, Liquid and Topical preparation. It has 20 years of experience in Manufacturing of Pharmaceutical formulations. The sales revenue of the Company is Rs.96.57Cr and Export sales Value of Rs.84.23Cr. The Company has been awarded the “Business Excellence Award” in 2021. Website: [www.corallabs.com](http://www.corallabs.com).

## **15. Bal Pharma**

Bal Pharma is an Indian Pharmaceutical Company. It was founded in May 1987 and headquartered at Bangalore, Karnataka, India. Managing Director is Shailesh Dheerajmal Siroya with 823 employees in 2021. They manufacture Tablets, Capsules, Syrups and ointments. The organisation has been working to increase the quality of life for patients by providing them safe, effective, high-quality, and affordable medical products. They provide an Innovative solution in disease management by providing Quality medicines and generics. The sales revenue of Rs.249.31 and Export sales value of Rs.70.96 Cr. It has been awarded “Outstanding export performance”. Website: [www.balpharma.com](http://www.balpharma.com)

## **16. Alpa Labs**

Alpa labs is an Indian Pharmaceutical Company. It is incorporated in the year 1988 at Indore, Madhya Pradesh, India. Managing Director is Mahendra Singh Chawla with 513 employees in the year 2021. They manufacture ethical drugs, generic drugs, and veterinary products. It offers wide range of products under its brand. The Company provides the right quality with affordable price. It has an established product marketing network covering both metro and mini-cities which covers the existing customers. The Sales revenue of Rs. 97.55 Cr and Export sales value of Rs.82.45 Cr. It has been awarded Medi Wales Innovation Awards in 2021. Website: [www.alpalabs.com](http://www.alpalabs.com).

## **17. Gennex Labs**

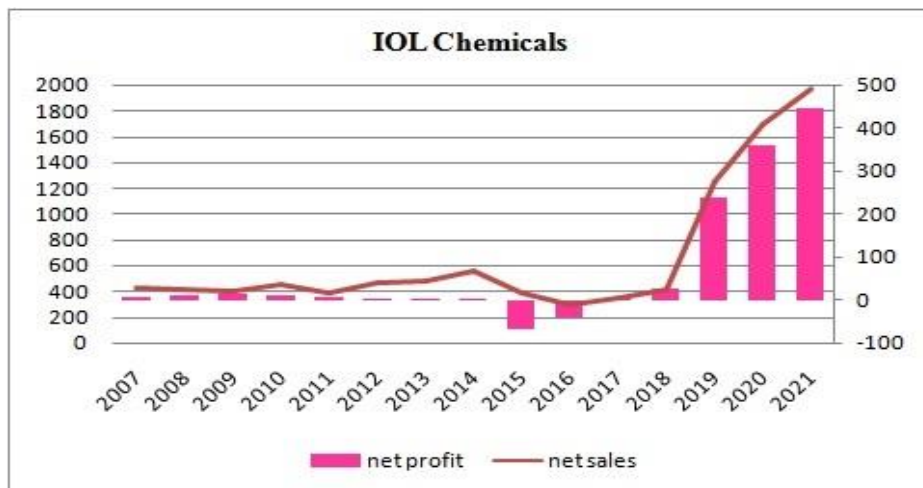
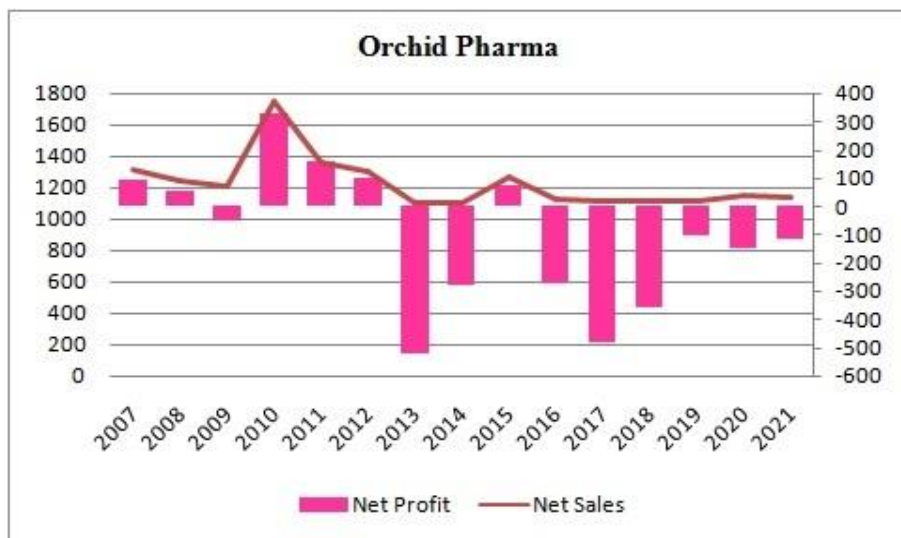
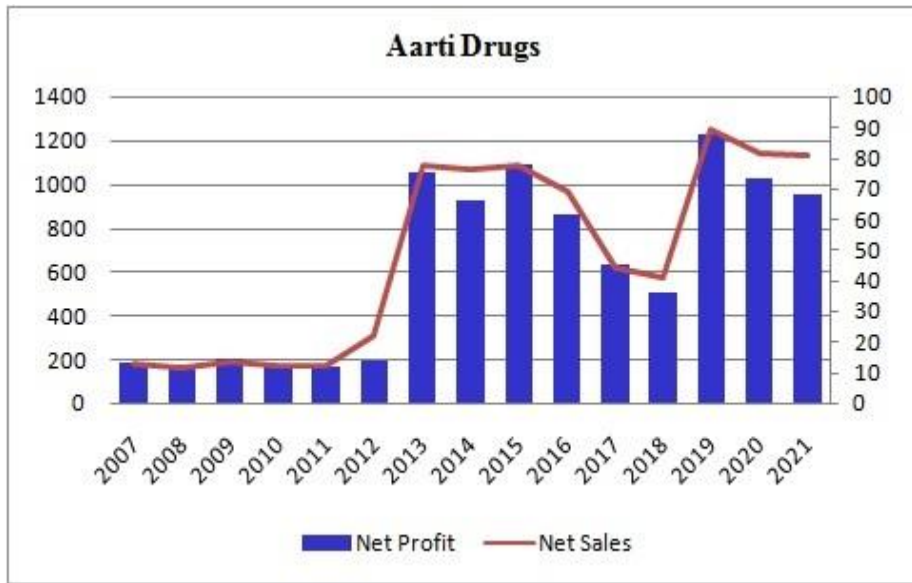
Gennex labs are the Active Pharmaceutical Ingredient manufacturing company. It is headquartered in Karnataka, India and founded in 25 June 1985. Managing Director is Arihant Baid with 182 employees in 2021. The company manufacture medicine products and marketing the products worldwide. It was supported by excellent service, quality, price and long lasting business relationships. The sales revenue of Rs.59.63Cr and Export sales value of Rs.16.51Cr. It exports products to various countries like Germany, United Kingdom, Spain, Singapore, Canada and other major countries. It has been awarded Aparajita Award in 2021. Website: [www.gennexlabs.com](http://www.gennexlabs.com).

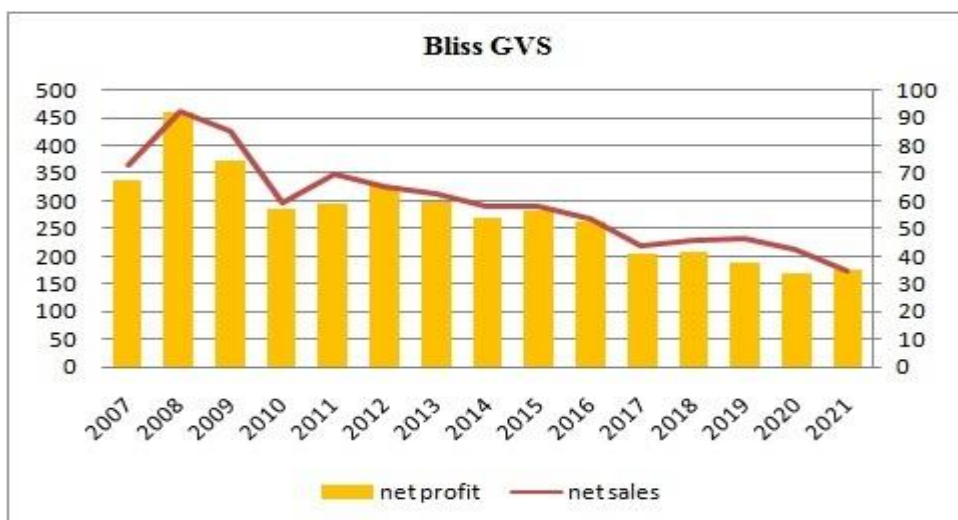
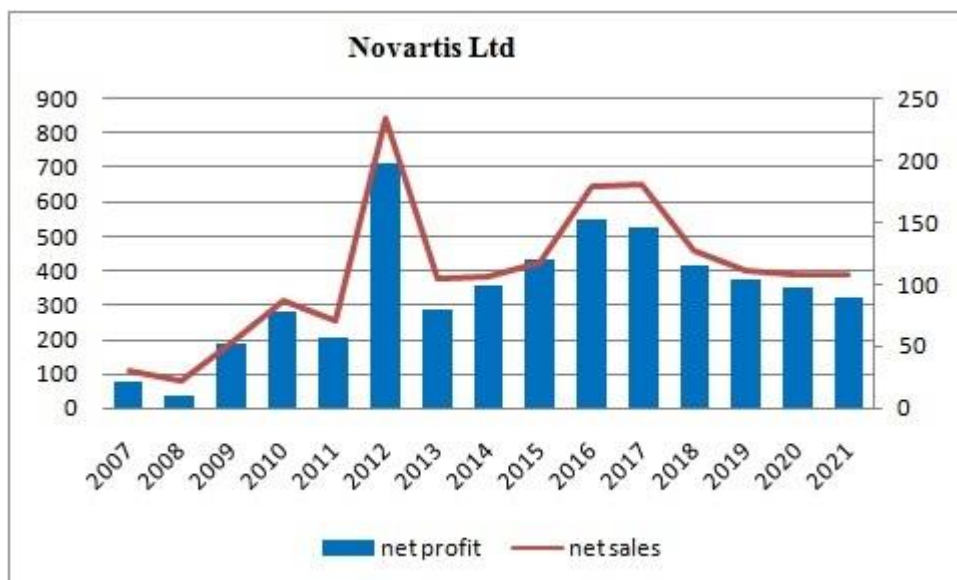
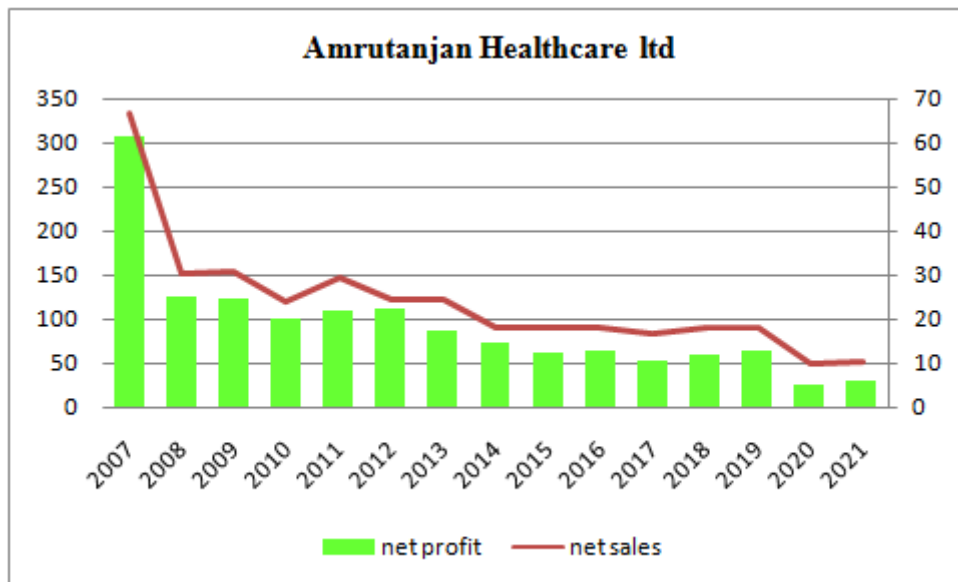
## **18. Alembic Pharmaceuticals**

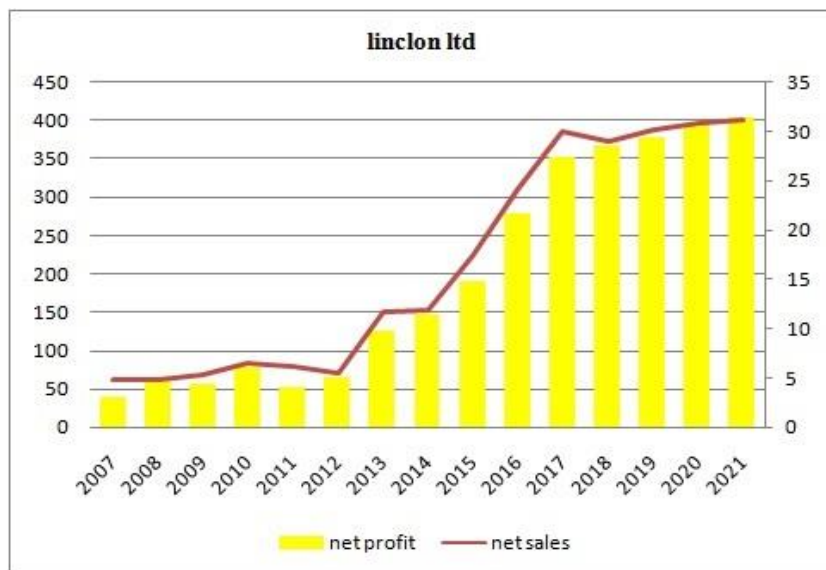
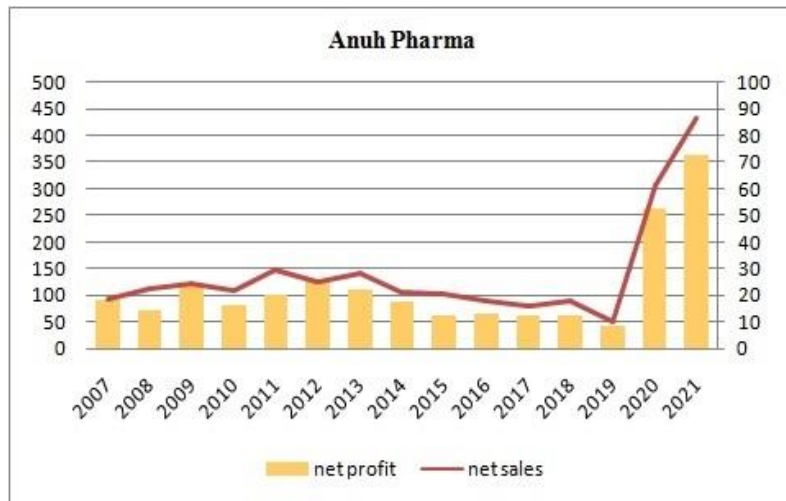
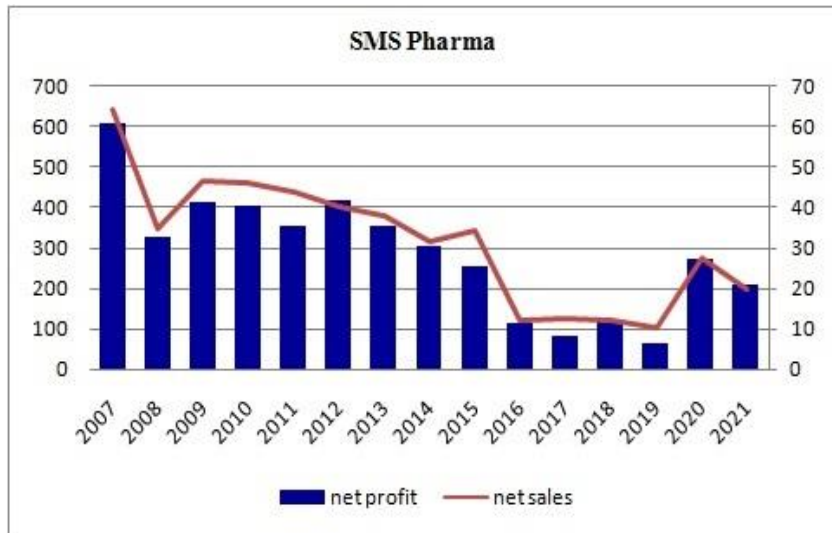
Alembic Pharmaceuticals Limited is a public limited corporation based in India. Vadodara, Gujarat, India was the company's headquarters, founded by Prof. T. K. Gajjar in 1907. Managing Director of the Company is Pranav Amin and there were 12,216 employees in the year 2021. They manufacture Pharmaceutical Products, Pharmaceutical Substances and Intermediaries. It also provides international and domestic medicines, both branded and generic. It has sales revenue of Rs.5051.44 Cr and Export sales value of Rs.2985.91 Cr .The Company operates in other countries also like US, Canada, Brazil, Australia, South Africa and other regions in Europe. The Company has been awarded as “India Super 50 Companies” in 2016. Website: [www.alembicpharma.com](http://www.alembicpharma.com).

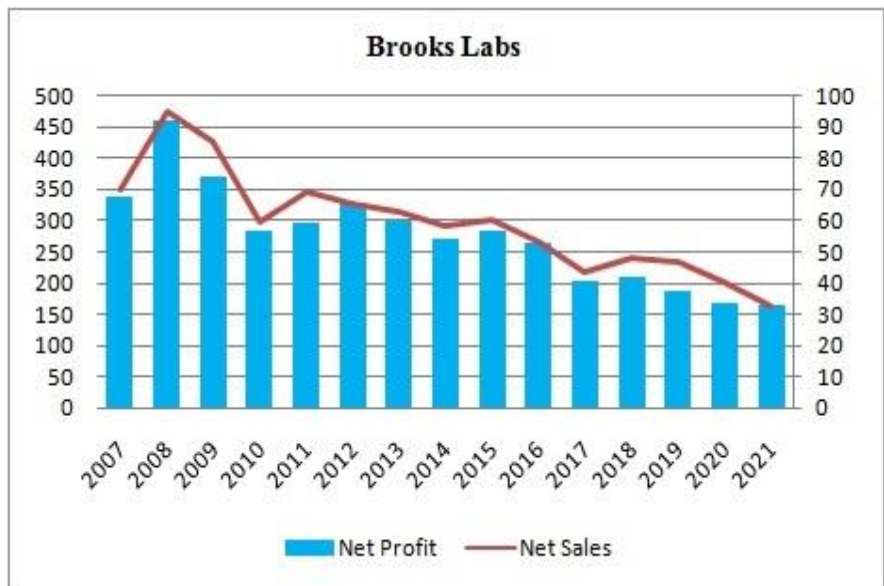
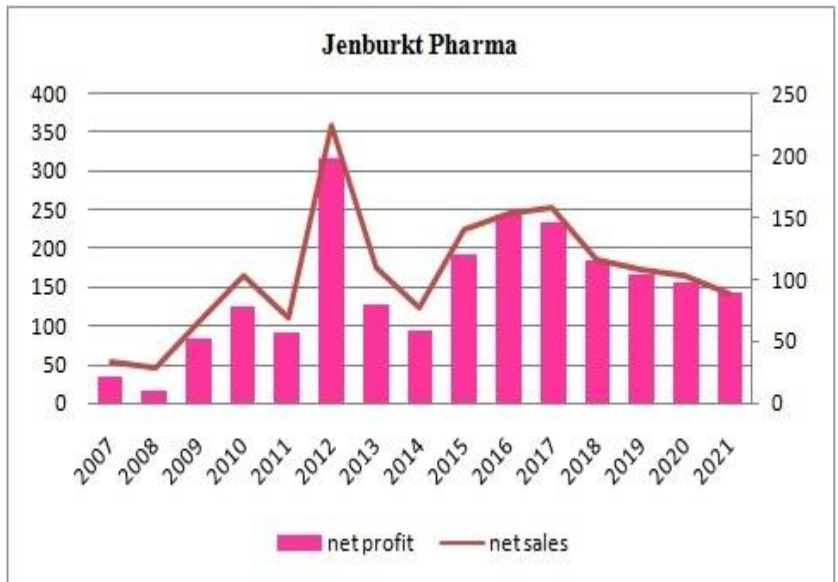
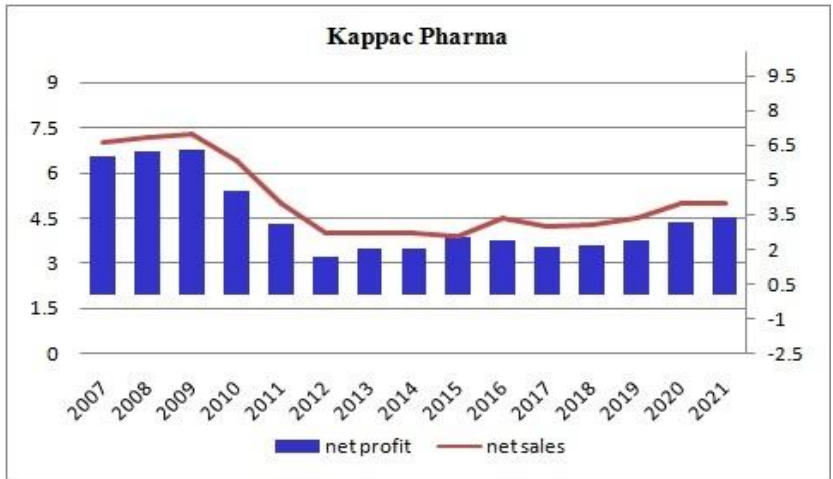
### Exhibit 6

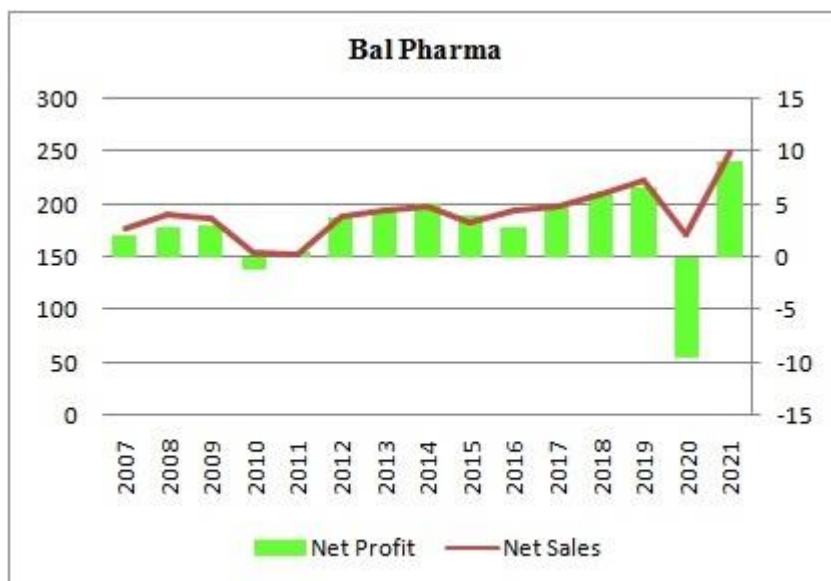
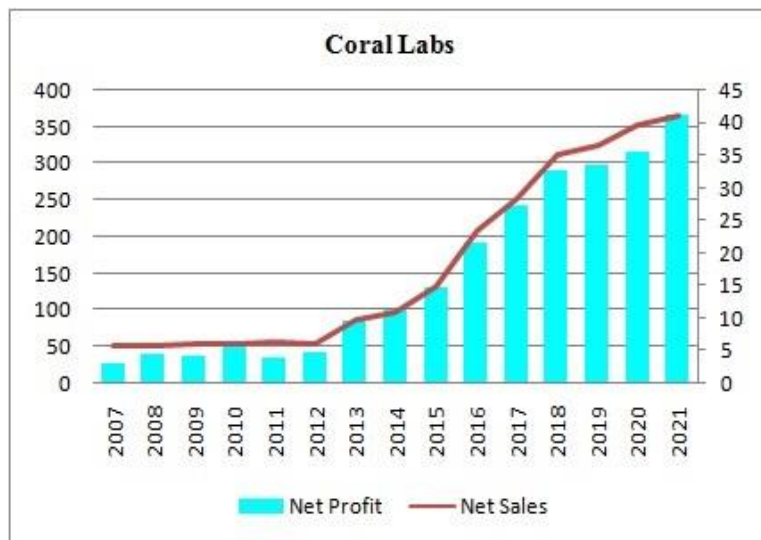
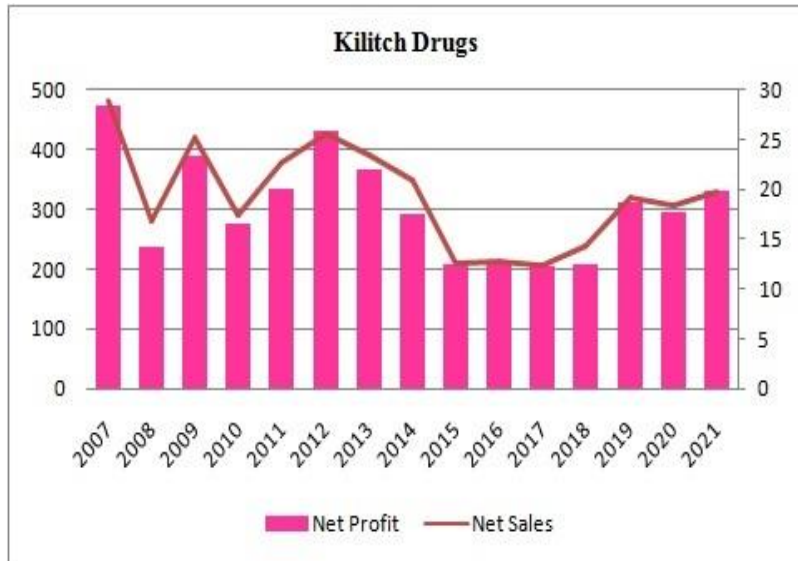
### Small Capital Companies Net Sales and Net Profit/Loss (2007-2021)

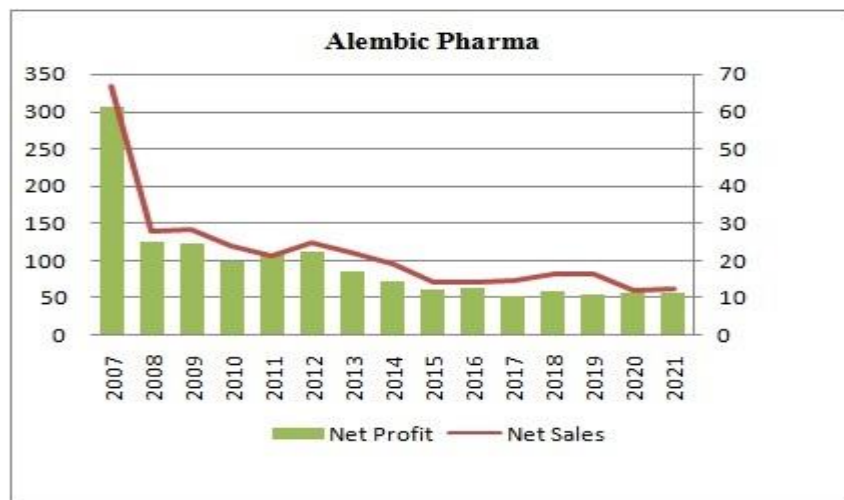
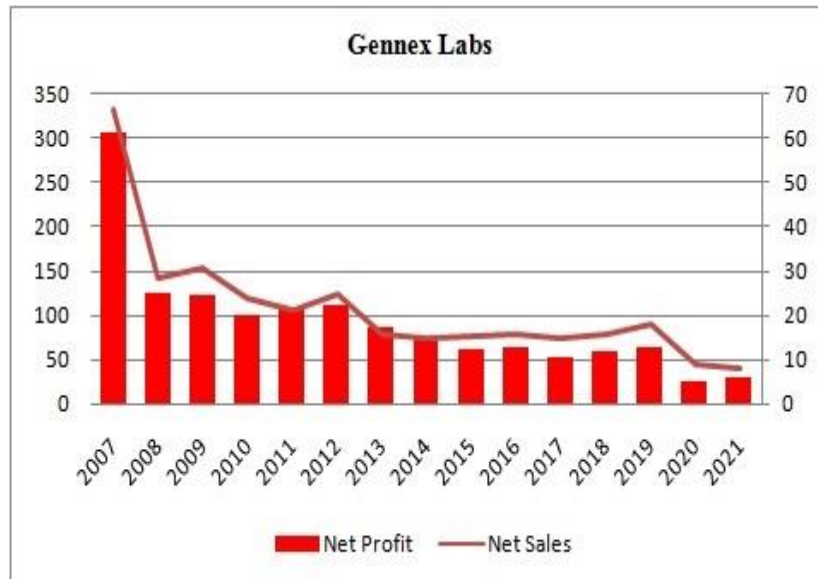
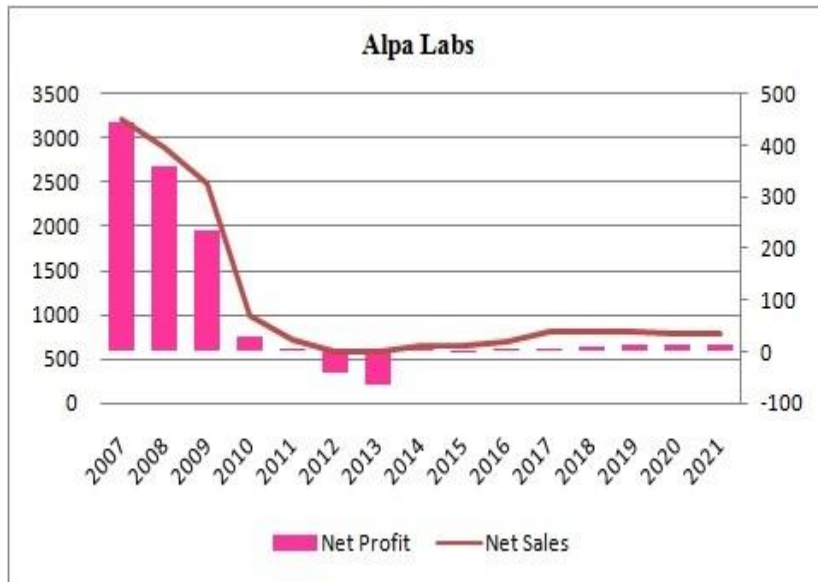












## 1.5 STATEMENT OF THE PROBLEM

India is a major player in the global pharmaceutical business. India is considered as the “Pharmacy of the World”, owing to its high and efficient production of “Global Standard Medicine” at affordable costs. Industry experts believe that India's pharmaceutical sector has gained renewed global attention due to the COVID-19 crisis, with the FDI inflows, firmly establishing India's credentials as a safe and key investment destination in the world ([www.ibef.org/2022](http://www.ibef.org/2022)). Therefore, these companies should make a proper financial decision (Dutta,S.R., et al.2022). Capital Structure and Dividend Decisions are vital issue in corporate finance. The Shareholders return and risk was influenced by the Capital Structure (Pandey, 2004). The ideal capital structure and dividend policy in the Pharmaceutical Industry will enhance the firm value and a strong financial position (Maryam Alhani Fumani,2015).Therefore, the industry should increase their market value by examining the capital structure and dividend decision from the point of view of its impact on the firm value (Obaid Ur Rehman,2016).

There were several theories related to capital structure and dividend policy. Each of the capital structure and dividend policy theory has different views on organization capital structure decisions and dividend payouts. Briefly Capital Structure and Dividend Policy theories are mentioned here. The appropriate application of relevant theories in this research study are identified.

**Modigliani and Miller Approach:** The Modigliani and Miller approach reveals that the capital structure is unaffected by the firm value (Modigliani,F.,& Miller,M.H,1958; Khan et al.2017).

**Trade-off Theory:** The Trade- off theory mainly focus on the balance between the cost of debt against the debt (Myers,2001;Abdullah,A.K.,2021).It shows that the firm usually manage its financial operations by debt and equity. It asserts that there should be a ideal capital structure that achieves a balance between the interest tax shield and cost of bankruptcy (Chakraborty,2010).It shows a positive impact of debt ratio on firm value (Nguyen et al.2023;Seetanah et al.2014).

**Pecking Order Theory:** The Pecking Order theory states that firms with less dividend will have sufficient retained earnings for investment and decrease the need for external funds, thus the firms tend to have low debt funds (Myers & Majluf,1984).Maximum of the firms use retained earnings for investment and lastly they

utilize the equity to finance their assets (Pandey,2004).This theory states a firm prefer internal finance over external financing. It shows that the Debt Equity has a negative relationship with firm value (Nguyen et al.2020).

**Agency Theory:** The Agency theory states that the managers pursue their own interest instead of maximizing returns to the shareholders. It shows that the capital structure has an impact on financial performance (Abdullah,2021; Jouda,2018).

The two major theories in Dividend Policy are Dividend Irrelevance Theory and Dividend Relevance Theory.

**Dividend Irrelevance Theory:** The Dividend Irrelevance theory states that firm's dividend payout does not affect its firm value or the shareholders wealth (Lihard Stevanus Lumapow,2018).

**Dividend Relevance Theory:** The dividend relevance theory suggest that there is a direct relationship between the firm's dividend policy and market value (Sorin Gabriel Anton,2016;Sourav Hansda et al.2020).

Due consideration is given to all these theories mentioned above:

Identifying the proper combination of capital structure and dividend policy to enhance the firm value in Indian Pharmaceutical companies is the research problem stated in this study.

In 2020,the Pharmaceutical Industry in India is the third largest in the world (Mc Kinsey & Co.,Report 2020).Being a developing market, it is also important for Revenue Generation and Employment. During Covid-19, people as well as the financial condition has been affected (Chavarkar & Nayak,2022).Even though when every sector have been affected by Covid Pandemic, the Pharmaceutical Industry in India had a positive influence due to the demand for vaccines from all over the world. The Indian Pharmaceutical sector had a 200 percent increase in FDI in 2020-21 (The Economic Times, February 1,2022). Hence, they started to attract many shareholders. Eventually the dividend distribution will be higher. So, it is essential to know how the Capital Structure and Dividend Policy operate in this industry. Assessing the impact of capital structure on dividend policy will help to find out their effect on enhancing the firm value.

Therefore, the current research study has been carried out to evaluate the "Impact of Capital Structure and Dividend Policy on Firm Value of select Pharmaceutical Companies in India" in order to solve the research problem stated.

## **1.6 RESEARCH QUESTIONS**

1. What are the determinants of Capital Structure and Dividend Policy?
2. Whether there is an Impact of Capital Structure on Firm Value?
3. How does the dividend policy influence Firm value?
4. What is the impact of Capital structure on Dividend Policy?
5. What is the relationship between Capital Structure, Dividend Policy and Firm Value?
6. What will be the intra industry differences of Capital Structure and Dividend Policy?

## **1.7 RESEARCH OBJECTIVES**

1. To analyze the factors determining Capital Structure and Dividend policy of select Pharmaceutical Companies in India.
2. To examine the impact of Capital Structure on Firm Value of select Pharmaceutical Companies in India.
3. To assess the impact of Dividend Policy on Firm Value of select Pharmaceutical Companies in India.
4. To determine the impact of Capital Structure on Dividend Policy of select Pharmaceutical Companies in India.
5. To identify the relationship between Capital Structure, Dividend Policy and Firm Value of select Pharmaceutical Companies in India.
6. To find out the intra-industry differences in Capital Structure and Dividend Policy of select Pharmaceutical Companies in India.

## **1.8 RESEARCH HYPOTHESES**

H<sub>01</sub>: There is no significant impact of Capital Structure on Firm Value of select Pharmaceutical Companies in India.

H<sub>02</sub>: There is no significant impact of Dividend Policy on Firm Value of select Pharmaceutical Companies in India

H<sub>03</sub>: There is no significant impact of Capital Structure on Dividend Policy of select Pharmaceutical Companies in India.

H<sub>04</sub>: There is no significant impact of Capital Structure on Dividend Policy of select Pharmaceutical Industries in India.

H<sub>05</sub>: There is no significant relationship between the Capital Structure, Dividend Policy and Firm Value of select Pharmaceutical Companies in India.

## **1.9 SCOPE OF THE STUDY**

A crucial step in ensuring the company's success is the strategic choice of the capital structure and dividend policy. The manager must select the ideal capital structure and dividend decision in order to maximize firm value and shareholder wealth. 31 pharmaceutical companies from India are included in the current analysis. The sample spans 15 financial years from 2007–2008 to 2020–2021 and is made up of companies listed in the Bombay Stock Exchange that are classified as Large Capital Companies, Medium Capital Companies, and Small Capital Companies. The secondary data is gathered from Annual Reports. This analysis gives pharmaceutical businesses a good scope to comprehend and make strategic financial decisions.

Both theoretically and practically, it has major implications. Additionally, this study helps investment analysts and corporate managers to develop an appropriate Capital Structure and Dividend decision. Different types of investors and company managers will benefit greatly from this study's empirical findings as they make long-term investment decisions and create the best possible strategic plan for their companies. The financial health and stability of a major pharmaceutical companies as well as the Indian pharmaceutical industry will be improved by the strategic capital structure and dividend decisions made in accordance with the research findings of this study.

## **1.10 LIMITATIONS OF THE STUDY**

1. The present study is not considering the aspects like Corporate Governance, Stock Price and Corporate Ownership.
2. This study had not considered other manufacturing industries like Chemical Industry, Steel Industry and Construction Industries etc.

## **1.11 CHAPTER SCHEME**

### **Chapter 1: Introduction**

This Chapter includes Introduction, Statement of the Problem, Objectives, Scope of the study, Hypotheses, Limitations and Chapter Scheme.

### **Chapter 2: Review of Literature**

This chapter presents the review of literature of various studies related to Capital Structure, Dividend Policy and Firm Value and Research Gap.

### **Chapter 3: Methodology**

This Chapter shows the methodology adopted for the study. Research Design, Sample selection, Period of study, Area of Study, Method of Data Collection and Tools for data analysis, Data variables and Statistical tools are used for the study.

### **Chapter 4: Results and Discussion**

This chapter shows the analysis and interpretation of data collected for the select objectives of the study.

### **Chapter 5: Summary and Conclusion**

This Chapter includes the findings from the results of the analysed data, conclusion, offers suggestions and recommendations.