FINANCING DECISIONS: A STUDY OF PHARMACEUTICAL COMPANIES OF INDIA

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ABSTRACT

Since, last two decades of Indian economy, there is a continue research on company financing activities, particularly aimed at understanding how companies finance their investments and what source they used to finance. In practice, it is observed that finance managers use different combinations of debt and equity to meet the various financial requirements of the company at least cost and risk and for the long term benefit of the company. Therefore, this study is aimed to make analyse of capital structures pattern of various companies for the period of 2007-2011 and analyse the effect of changes in capital structure on its investment pattern over the period of time. This study also attempt to make an intra company analysis with the objective to determine the importance of debt-equity mix for the effective investment policy. Similarly, To study the financing decisions, this paper include the trend analysis of detail financial information of four most reputed pharmaceutical companies, that are Dabur India Ltd, Cipla, Aurobindo Pharma Ltd, Cadila Health Care Ltd for the period of five year i.e 2007-2011.


INTRODUCTION

Financing decisions are one of the most critical areas and the challenging job for the finance managers, because, It has direct impact on the financial performance and capital structure of the companies. The finance manager of every company is always looking to maximize the economic welfare of the owners as represented by the market value of the firm. For this purpose, he has to take number of decisions like investment, financing and dividend decisions. The financing decision is mainly involves two choices. The first is the dividend choice – the distribution of retained earnings to be ploughed back and to be paid out as dividends. The second is a choice of capital structure – the proportion of external finance to be borrowed and the proportion to be raised in the form of new equity. In real sense, the decisions about both the choice should not impact on the value of the firm. Because these decisions are related to either the form of
distribution, type of security, or make up of the ownership structure, but not to the investment decision. Generally, the firms have the internal and external sources of fund in its capital structure to finance their investments. Internal sources include retained earnings and depreciation; whereas the external sources consist of new borrowings or the issue of shares.

Capital structure decisions have great impact on the firm’s financial performance. Exactly how firms choose the amount of debt and equity in their capital structures remains an enigma. Capital structure is the combination of debt and equity that finance the organization's strategic plan. The effective management of capital structure ensures the availability of required fund to finance the future growth and enhance the financial performance. The debt equity relationship is depends upon the nature of industries involved like company's line of business and its development. A company is said to be highly leveraged, if it includes the maximum debt source of finance in its capital structure, which results, the company find its freedom of action restricted by its creditors and may have its profitability affected with the payment of high interest costs. There is a significant difference between the industry and the individual companies within an industry in terms of capital structure. There are number of factors influencing the capital structure decision of the company, but the judgment of the person making the capital structure decision plays a crucial part. Two similar companies can have different capital structures as per the different judgement of decision makers with the significance of various factors. Thus, the financing decisions have no affect on firm value, as it is the residue of the more important investment decisions. Similarly, this paper is an attempt to determining the impact of variations in the capital structures of various pharmaceutical companies on their investment pattern over the period of time and highlighting the importance of debt capital and equity capital to determining the value of investments of the companies.

**PHARMACEUTICAL SECTOR OF INDIA**

India received independence from Britain in 1947. In the early years following that event, MNCs were allowed to export drugs—mainly low-priced generics and a few high-priced specialty items. When the Indian government increased pressure against the import of finished products, MNCs developed formulation units in India and exported only bulk drugs to that country. In the early 1960s, the Indian government encouraged the indigenous manufacture of bulk drugs. India’s pharmaceutical industry is now ranked as the third largest industry in the world in terms of volume. Its rank is 14th in terms of value. Between September 2008 and September 2009, the
total turnover of India's pharmaceuticals industry was US$ 21.04 billion. The domestic market was worth US$ 12.26 billion. This was reported by the Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers. As per a report by IMS Health India, the Indian pharmaceutical market reached US$ 10.04 billion in size in July 2010. There are about 250 large units and about 8000 Small Scale Units, which form the major empire of pharmaceutical industry in India (including 5 Central Public Sector Units). These units produce the large range of pharmaceutical formulations, like medicines ready for consumption by patients and about 350 bulk drugs, including chemicals having therapeutic value and used for production of pharmaceutical formulations. The Indian pharmaceutical industry meets around 70% of the domestic demand for bulk drugs, drug intermediates, and pharmaceutical formulations.

The Indian Pharmaceutical sector is highly fragmented with more than 20,000 registered units. It has grown drastically during the last two decades. The 250 pharmaceutical leading companies control 70% of the market with market leader holding nearly 7% of the market share. It is an extremely fragmented market with severe price competition and government price control. Due to the de-licensing policy, most of the drugs and pharmaceutical products got exemption. Manufacturers are free to produce any drug duly approved by the Drug Control Authority. Totally self-reliant and technologically strong, the pharmaceutical industry in India has low costs of production, innovative scientific manpower, low R&D costs, strength of national laboratories and an increasing balance of trade.

**REVIEW OF LITERATURE**

Myers (1984) stated that there was not sufficient evidence on the relationship between risk and capital structure. According to the trade-off theory, higher debt ratio increases the probability of financial distress. The firm’s debt ratio is affected with the positive financial distress/bankruptcy costs. Carelton and Siberman (1997) concluded that, if lower the degree of financial leverage adopted then higher will be the variability in rate of return on invested capital. Hence, the ultimate determinant of leverage would be the variance, not the rate of return. Bhaduri (2002) study the capital structure choice in a sample of 363 Indian firms between 1989 and 1995 by employing the factor analytic approach. His results suggested that the financial mix of the firm is influenced by firm size, growth, and uniqueness. Notably, collateral value of assets and tax shield factors did not shown up as important explanatory variables. Eldomiaty (2007) stated that researchers decided to take India as sample of emerging market and evaluate performance of
firms against capital structure. After the comparison to the developed markets like America, Europe etc. He found that capital markets were less efficient and suffered from higher level of asymmetry in terms of information in emerging and developing markets than capital markets in developed countries. Jackling and Johl (2009) the ownership of family firms were frequently associated with pyramiding, family trusts and cross holding. These structures increased the divergence of control and cash flow rights presenting special agency problems associated with corporate governance.

RESEARCH METHODOLOGY
Research is a process of systematically obtaining accurate answers to significant and pertinent questions by the use of scientific method of gathering and interpreting information. This study is based on the secondary data i.e financial information from the company’s annual reports. The study is focus on determining the capital structure pattern of the companies and its impact on the investment pattern over the period of time. To achieve the set objectives of the study the financial analysis technique is applied i.e Trend Analysis on the company’s financial statements for the period of 2007-2011 to analyse the change in capital structure and its impact on investment pattern of the companies. The sample size of the study is consist of four most growing pharmaceutical companies that are Dabur India Ltd, Cadila Health Care Ltd, Cipla, Aurobindo Pharma Ltd.

OBJECTIVES OF THE STUDY
- To determine the capital structure pattern of the pharmaceutical companies for the period of 2007-2011.
- To analyse the impact of change in capital structure on the investment pattern of the firms.
- To study the intra company’s capital structure analysis and to determine the relationship of change in capital structure with the company’s investment policy.

ANALYSIS OF THE STUDY
Dabur India Ltd
Dabur India Limited is one of the India’s leading FMCG Companies with revenues of US$ 599 Mn. building on a legacy of quality and experience for over 120 years, Dabur is today India’s most trusted name and the world’s largest Ayurvedic and Natural Health Care Company. The
company has its manufacturing facilities spread across the Asia & Africa with 8 units being in India and 5 outside India. Dabur has entrenched brand equity not only in India but in International markets, which contributes 18% of the overall turnover. The company remains committed to drive growth aggressively and enhance the shareholder value. Dabur India Limited has marked its presence with significant achievements and today commands a market leadership status. Due to the effective leadership the company has achieved the status of leading consumer goods company in India with 3 major strategic business units (SBU) - Consumer Care Division (CCD), Consumer Health Division (CHD) and International Business Division (IBD), 17 ultra-modern manufacturing units spread around the globe and wide deep market penetration with 50 C&F agents, more than 5000 distributors and over 2.8 million retail outlets all over India. Similarly the company is earning maximum growth operationally as well as financially over the period of time. Therefore to study the objective of the study, the trend analysis is made on the basis financial statements for the period 2007-2011.

### Growth Analysis of Dabur India Ltd

<table>
<thead>
<tr>
<th>Year</th>
<th>Shareholder's Fund</th>
<th>Trend</th>
<th>Debt</th>
<th>Trend</th>
<th>Total Investment</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>40318.92</td>
<td>100.0</td>
<td>2007.99</td>
<td>100.0</td>
<td>38439.1</td>
<td>100.0</td>
</tr>
<tr>
<td>2008</td>
<td>52832</td>
<td>131.0</td>
<td>1733.69</td>
<td>86.3</td>
<td>56480.1</td>
<td>146.93</td>
</tr>
<tr>
<td>2009</td>
<td>73820</td>
<td>183.1</td>
<td>14137</td>
<td>704.0</td>
<td>79693.0</td>
<td>207.32</td>
</tr>
<tr>
<td>2010</td>
<td>74938</td>
<td>185.9</td>
<td>10997</td>
<td>547.7</td>
<td>86774.0</td>
<td>225.74</td>
</tr>
<tr>
<td>2011</td>
<td>110116</td>
<td>273.1</td>
<td>25744</td>
<td>1282.1</td>
<td>98374.0</td>
<td>255.92</td>
</tr>
</tbody>
</table>

Table-1

As per the data available in Table - 1, it is clear that the Dabur India Ltd. is using the debt and equity source of finance in its capital structure. The trend analysis of the company’s financial performance states that there is a consistent growth in the use of equity financing. So therefore
the growth of equity financing of the company in 2011 is 273.1% as compare to the base year of the study i.e 2007. Similarly, the analysis states that company is looking to be keen towards increasing the stake of the equity shareholders to achieve the company’s overall growth. On the other hand, the trend in company’s debt financing is looking to be very uncertain or fluctuating. As per the above analysis, in 2008 there is a decrease in use of debt capital as compare to the previous year, but in 2009 there is tremendous growth in debt financing, which is more than seven time as compare to the base year, again in 2010 there is small deviation and after that in 2011, company raise debt capital at level, which can be assumed to be the maximum level of period under study i.e twelve time more as compare to the base year. Similarly with analysis, it seems that the company’s capital structure policy is not so effective, because the company is using maximum fixed cost source of funds, which ultimately affect the company’s profitability and increase the financial burden on it.

The analysis to measure the effect of change in capital structure on the company’s investment pattern states that there is a growth in the investment pattern at a consistent rate over the period of time under study. But in overall the growth rate of the company’s investments is more than 250% in the 2011 as compare to the base year 2007. But, the comparison of growth of company’s investment pattern to growth of capital structure, make it clear that the change in company’s capital structure has a very little impact on its investment pattern, because the percentage change in capital structure amount is more than the percentage change in investment during the period of study. Therefore, it can be said that the company is using the long term source of funds to finance its current assets also along with the long-term investment to sustain the company’s profitability at the least cost of capital.

**Cardila Health Care**

Zydus Cadila is an innovative global pharmaceutical company that discovers, develops, manufactures and markets a broad range of healthcare products. The cadila produce a wide range of product including API to formulations, animal health products and cosmeceuticals. The company’s headquartered is situated in the city of Ahmedabad in India, the company has global operations in four continents spread across USA, Europe, Japan, Brazil, South Africa and 25 other emerging markets.

In its mission to create healthier communities globally, Zydus Cadila delivers wide ranging healthcare solutions and value to its customers. With over 12,000 employees worldwide,
a world-class research and development centre dedicated to discovery research and eight state-of-the-art manufacturing plants, the company is totally dedicated to improving people’s lives. Similarly the company is performing well on its operational part and having the strong profitable and financial position. The Trend analysis of the company for the year 2007-2011 is as follow.

### Growth Analysis of Cadila Health Care Ltd

<table>
<thead>
<tr>
<th>Year</th>
<th>Shareholder's Fund</th>
<th>Trend</th>
<th>Debt</th>
<th>Trend</th>
<th>Total Investment</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>8823</td>
<td>100.0</td>
<td>4477</td>
<td>100.0</td>
<td>10864</td>
<td>100.0</td>
</tr>
<tr>
<td>2008</td>
<td>10538</td>
<td>119.4</td>
<td>7389</td>
<td>165.0</td>
<td>13230</td>
<td>121.8</td>
</tr>
<tr>
<td>2009</td>
<td>12328</td>
<td>139.7</td>
<td>8198</td>
<td>183.1</td>
<td>15496</td>
<td>142.6</td>
</tr>
<tr>
<td>2010</td>
<td>16221</td>
<td>183.8</td>
<td>5941</td>
<td>132.7</td>
<td>16922</td>
<td>155.8</td>
</tr>
<tr>
<td>2011</td>
<td>20899</td>
<td>236.9</td>
<td>5640</td>
<td>126.0</td>
<td>19691</td>
<td>181.3</td>
</tr>
</tbody>
</table>

The Cadila Ltd. is using the debt and equity source of finance in its capital structure. As per the analysis of the study, there is a growing trend in the company’s equity financing at consistent rate in the initial years but after 2009 there is a tremendous increase in the equity capital of the company till the end of the period i.e in 2011. Therefore the growth rate in the equity financing is more than 200% as compare to the base year i.e 2007. On the other hand, the trend in debt financing is increasing in the initial three year till 2009 but after that it decrease in later period of the study, which states the decreasing trust of the company to raise the funds from debt sources. Similarly, in the above figure, it clear that after the half of the period of study, there is an inverse trend in the debt and equity financing in the company’s capital structure, which
ultimately states the decrease in company’s financial burden due to the decrease in the fixed cost bearing debt sources.

As per the objective of the study to measure the impact of change in company’s capital structure on the company’s investment pattern, the analysis of the study states that the company is increasing its investment value every year at a consistent rate, whereas it seems that such a large variations in the company’s capital structure has a very little impact in the company’s investment pattern. Because, the effect on investment pattern due to the decrease in company’s debt financing is mostly offset by the increase in equity financing over the period of time. In spite of such large variation in the company’s capital structure, the overall trend in capital of the company is increasing more than the increasing rate of the company’s investments. Therefore, it can be said that the company is using it long term sources of funds especially from equity to finance its current assets along with the object to sustain the solvency & profitability at the least cost of capital.

Cipla

The Chemical, Industrial & Pharmaceutical Laboratories which came to be popularly known as Cipla was founded by Dr K.A. Hamied in 1935. A Mumbai-based company currently Cipla is a leading domestic Indian pharmaceutical company with a market share of about 5.85% and crossed Rs20bn mark in revenues during 2004. The Company is currently ranked first in trade sales as per the ORG IMS retail audit. In the domestic market Cipla is a leading player in the formulations segment. Cipla manufactures and markets wide range of formulations in various conventional and advanced dosage forms such as tablets & capsules, liquids, creams, aerosol, inhalation devices, injections and sterile solutions & covering a large number of therapeutic segments, the main ones being anti-asthmatics, anti-biotics, cardiovascular, anti-AIDS and anti-diarrhoeal. The formulations segment is Cipla’s main stay and contributes over 75% of the company’s gross revenues. The company manufactures more than 150 bulk drugs and intermediates and derive about 20% of revenues from this segment including exports of bulk drugs. Exports of API’s and formulations witnessed good growth and this trend is likely to continue going forward on the back of the huge global generics opportunity and Cipla’s strong strategic alliances with global pharmaceutical companies. Currently Cipla exports to over 150 companies across the globe and has an alliance with leading US generics companies such as
Ivax, Watson etc. The trend analysis of the company’s capital structure and its impact on the investment pattern for the period under study is as under:

**Growth Analysis of Cipla**

<table>
<thead>
<tr>
<th>Year</th>
<th>Shareholder's Fund</th>
<th>Trend</th>
<th>Debt</th>
<th>Trend</th>
<th>Total Investment</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3236.27</td>
<td>100.0</td>
<td>123.56</td>
<td>100.0</td>
<td>1579.1</td>
<td>100.0</td>
</tr>
<tr>
<td>2008</td>
<td>3755.82</td>
<td>116.1</td>
<td>540.45</td>
<td>437.4</td>
<td>1989.2</td>
<td>126.0</td>
</tr>
<tr>
<td>2009</td>
<td>4350.75</td>
<td>134.4</td>
<td>940.24</td>
<td>761.0</td>
<td>2440.1</td>
<td>154.5</td>
</tr>
<tr>
<td>2010</td>
<td>5914.09</td>
<td>182.7</td>
<td>5.07</td>
<td>4.1</td>
<td>2960.5</td>
<td>187.5</td>
</tr>
<tr>
<td>2011</td>
<td>6612.95</td>
<td>204.3</td>
<td>441.39</td>
<td>357.2</td>
<td>3691.4</td>
<td>233.8</td>
</tr>
</tbody>
</table>

Table-3

As per the analysis of the study the capital structure of the company is consisting of equity capital and debt capital. The trend analysis used under study states that the company is increasing the use of equity financing at a consistent growth rate over the period of time, which is found to be more than 200% till the end of the period under study i.e 2011. On the other hand, the trend in using the debt financing is fluctuating during the time period, which states that the company is using the liberal policy regarding the use of debt financing and the trend of using debt finance is looking to be very uncertain, because the data states that in 2008 the company increase it debt financing four time than the previous year, whereas in 2009 it again rise by more than seven time than in 2007, but in 2010 the company immediately decrease it debt financing at the least level of the period under study and in 2011 again there was a increase trend in the debt capital as compare to the previous year but less than the other initial years.

Similarly, to study the influence of change in capital structure pattern on the company’s investment pattern, the trend used by company to make the use of long term source of fund for the long term investment is studied. The analysis states that there is a consistent growth rate in
the investments, which is more than 200% in the end of year as compare to the base year under study. But, such growth in investment is not equal to the growth in fund from different long term source. In spite of maximum fluctuation growth in the debt financing pattern over the period of time with consistent growth of equity financing, the growth trend in investment is still consistently upward. Such an unequal match of growth penlight the company’s financing policy for using the long term source of funds to finance its current assets and to maintain the long term assets and investments over the period of time. As per the analysis, it is clear that company is using the maximum fixed cost bearing source of financing as compare to the equity finance, which may ultimately to be a financial burden on the company, but it can also be assumed that the company is using the long term source of funds to finance its current assets to increase it profitability at the least cost of capital.

Aurobindo Pharma Ltd

Aurobindo Pharma was born of a vision. Founded in 1986 by Mr. P.V.Ramaprasad Reddy, Mr. K.Nityananda Reddy and a small, highly committed group of professionals, the company became a public venture in 1992. Aurobindo Pharma had gone public in 1995 by listing its shares in various stock exchanges in the country. The company is a market leader in semi-synthetic penicillin drugs. Aurobindo has invested significant resources in building a mega infrastructure for APIs and formulations to emerge as a vertically integrated pharmaceutical company. Aurobindo's five units for APIs and four units for formulations are designed for the regulated markets.

Aurobindo is the second largest pharma company among its Indian peers in terms of portfolio. Aurobindo has been consistently investing in R&D (4% of the revenue) and currently marketing over 61 products in the US (16 in 2007), its US revenue has gone up from Rs2359 mn in 2008 to Rs9124 mn in 2010 (4x in 2 years). Despite being a late entrant in most of the products, Aurobindo has been able to garner respectable market share in many products because of its end to- end vertically integrated business model. 95% of its ANDAs are backed by its own DMFs and this has resulted in higher revenue accretion and margins improvement in the formulations segment. During 2007-10, ANDA filings have increased from 82 to 169. Aurobindo now has a total of 121 ANDA approvals (91 final approvals and 30 tentative approvals) from USFDA and is currently marketing 61 products in US. Its main products in the US include Valcyclovir, Amoxicillin, Cefpodoxime, Cefprozil, Carvedilol, Simvastatin, Metformin, Citalopram and
Paroxetine. Similarly, the company is growing at a very fast pace. The analysis of the company’s ability to finance its investment over the period of time is as under:

**Growth Analysis of Aurobindo Pharma Ltd.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Shareholder's Fund</th>
<th>Trend</th>
<th>Debt</th>
<th>Trend</th>
<th>Total Investment</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>9293.2</td>
<td>100.0</td>
<td>19763.4</td>
<td>100.0</td>
<td>10983.5</td>
<td>100.0</td>
</tr>
<tr>
<td>2008</td>
<td>12206</td>
<td>131.3</td>
<td>17556</td>
<td>88.8</td>
<td>12397.1</td>
<td>112.9</td>
</tr>
<tr>
<td>2009</td>
<td>13208.3</td>
<td>142.1</td>
<td>21148</td>
<td>107.0</td>
<td>14282.4</td>
<td>130.0</td>
</tr>
<tr>
<td>2010</td>
<td>19143.6</td>
<td>206.0</td>
<td>19447.8</td>
<td>98.4</td>
<td>19157.2</td>
<td>174.4</td>
</tr>
<tr>
<td>2011</td>
<td>25696.1</td>
<td>276.5</td>
<td>23177.2</td>
<td>117.3</td>
<td>24259</td>
<td>220.9</td>
</tr>
</tbody>
</table>

The analysis of company’s capital structure states that the company is using the debt as well as equity sources of funds to finance its capital. As per the trend analysis, the company is using maximum equity source of finance over the period of time, therefore the growth of increase in the equity capital is more than 250% in the last year of the study as compared to the base year 2007. On the other hand, the company has very less trust over raising the funds from debt sources, which results in the fluctuating growth trend in the use of debt source of funds by the company for the period under study. Similarly, the analysis of the study states that the growth of using debt source of finance is less than the growth of equity finance by half time. As per the data analysed in the above table, there is tremendous growth in use of equity source of finance since 2009, which becomes double in 2011. But on the other hand, there was a little variation in the debt financing pattern during the period from 2009-2011.

Similarly, to determine the influence of change in capital structure pattern over the company’s investment, the analysis states that there is a consistent growth in the investment over the period of time. As per the data in table no- 4 the company is using the maximum equity source of fund
to increase the investment level as compare of the debt source of fund. But the growth in investment level over the period of time is is than the growth in total amount of capital raised from different sources.

Therefore the analysis of capital structure with reference to investment pattern results that company is using maximum equity source of funds as compare to the debt finance and not using the whole amount in investments, it means the company is also using the long term source of funds to finance its current assets for the smooth running of its business, where as the policy of the company to use maximum equity capital is looking to be secure to sustain the solvency for the longer period.

**TO SUM UP**

The overall analysis of the study states that the capital structure of all the companies is consisting of equity funds and debt funds. As far as the equity capital is concern, the Dabur India Ltd and Cipla both of the companies are increasing their equity capital every year at a consistent growth rate, whereas the Aurobindo Ltd and Cadila Ltd. made the tremendous growth in the equity financing over the period of time under study. In both of these companies, the growth rate of equity financing in the end of the period under study is double than the growth rate of debt financing. In other words, it can also be said that the increasing trend in using the equity financing of both the companies is more than the debt financing during the whole period of the study.

Similarly, in case of debt financing pattern of the companies, there is great fluctuation over the period of time, but the overall trend in debt financing of all the companies is growing for the period under study except the Cadila Health Care Ltd, which decrease the use of debt financing in its capital structure in the later period of study. In case of Aurbindo Ltd. Company, there is an increasing trend in the debt financing over the period of time at the decreasing rate as compare to the equity financing. On the other hand, there is large fluctuation in the growing trends of debt financing in the companies of Dabur India Ltd and Cipla. But, in the overall analysis of Cipla Ltd company, in the initial year there is maximum growing trend in the debt financing but after that there is a sudden decrease in the trend in the later period, in the last year the trend again rise, which was not as equal to the earlier growth. In case of Dabur India Ltd, In spite of various fluctuations in the debt financing pattern of the company, the debt capital is still increasing at higher rate as compare to the equity capital over the period of time under study.
As far as the objective of the study to measure the impact of change in capital structure pattern on the investment of the companies over the period of time, the analysis states that all the companies are increasing their investment level every year at a consistent growth rate along with the increase in the capital structure pattern except the Auribindo Ltd company, which increase its investment level at higher rate in the later period of the study. On the other hand, the overall analysis of investment and capital structure pattern of all the companies concluded that growing rate of investment pattern of all the companies is less the growing rate of capital structure over the period of time. Similarly, It can also be said that, most of the pharmaceutical companies are not using their long term sources of funds not only to finance their long term investment, but also to finance their current assets, which states the objective of the companies to get maximum profitability over the period of time along with the long term solvency at less financial risk.

CONCLUSION

In the recent time, financial manager always plans an optimum capital structure for his company to obtain the higher market value per share. An optimal capital structure is usually defined as one that will maximizing shareholder’s wealth by minimize the firm's cost of capital. Capital structure decisions have great impact on the firm’s financial performance. Exactly how firms choose the amount of debt and equity in their capital structures still an enigma. There are number of factors influencing the capital structure decision of the company, but the judgment of the person making the capital structure decision plays a crucial part. Two similar companies can have different capital structures as per the different judgement of decision makers with the significance of various factors. Thus, the financing decisions have no affect on firm value, as it is the residue of the more important investment decisions. Therefore, firms, managers, and investors, devote more time and resources to making the financing decisions about dividends and capital structure. Similarly, this study also conclude that the capital structure decision of the pharmaceutical companies has very little effect on its investment pattern, which defines that the company is using long term sources of funds to finance its current assets and its operational activities of its business with the object to attain the long term solvency and maximising profitability with least cost of capital.
REFERENCES:


http://www.cardilacare.com/index.php

http://www.aurobindopharma.com/index.php