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Impact of IFRS on Financial Performance of Pharmaceutical Companies in India

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Abstract
It has been observed from a long time that there are many pitfalls under international financial reporting to bring homogeneity in financial reporting at international level. By considering these pitfalls and difference between national GAAPs and IFRS, this study analyzed the financial performance of Indian companies under IGAAP and IFRS by using financial ratios of companies. Various financial performance indicators will be used for analysis i.e. net profit/ net loss ratio, return on capital employed, return on shareholders' fund and basic earning per share for 10 years from 2006-07 to 2015-16 of two pharmaceutical companies in India. Out of which one is from public sector i.e. HAL and another one is from private sector i.e. Dr. Reddy Lab. The study compared the financial performance of companies under I GAAP and IFRS and will also compare the effects of IFRS on financial performance of public and private companies using correlation and T test.
Key Words: *Financial Performance, I GAAP, IFRS*

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I. INTRODUCTION

Accounting standards are set of both national and international levels. Since there is a spectrum of accounting standards established by different countries and it poses a serious problem to MNCs. So it would be beneficial to adopt globalised accounting standards to maintain uniformity and consistency of accounting policies all over the world. A company which is operating in more than one nation , found difficulty to comply with multiple standards if valid differences exist among the different set of accounting policies/ standards.

Now we are in the age of multinational trade and the dependence of economies on one and another. Now, all countries not accessing only their own country's capital but others as well. Due to this globalization, companies are recognizing the requirement of unique and solo standards.Therefore a historical milestone is occurring in reporting. In the past all the countries used their national GAAPs or followed standards set by larger countries. But this situation is changing in these days. A single set of rules, called IFRS is now being used by more than 100 economies. Applying national accounting standards meant amounts reported in financial statements might be calculated on a different basis. Unpicking this complexity involved studying the minutiae of national accounting standards, because even a small difference in requirements could have a major impact on a company's reported financial performance and financial position—for example, a company may recognize profits under one set of national accounting standards and losses under another."

To study the impact of IFRS on financial performance of indian pharmaceutical companies, the researchers has used four financial performance indicators i.e. net profit/ net loss ratio, return on capital employed, return on shareholders' fund and basic earning per share and measured the performance under I GAAP and IFRS in public and private sector pharmaceutical companies in India.

Literature Review

Shukla (2015) studied the changes in profitability of Indian companies by adopting IFRS and taken four parameters of financial activity i.e. Financial risks, investment activities, operating activities and debt covenants with their significance in statistical measurement. All the four showed some changes due to adoption of IFRS individually but no changes by comparing these activities collectively.

Muniraju & Ganesh (2014) studied the convergence of IFRS in India and its applicability on Indian corporate sector with a case study on Wipro limited. And examined the impact on income statements due to changes in the Wipro co. ltd by adopting common standards. The study revealed no considerable change in NP ratio, ROE, ROA and total asset income but leverage ratio shows remarkable transform on convergence with IFRS. The result concluded with a strong desire in the IFRS implementation.

Houge et al (2011) examined "the association between country-level government quality and firms' choice of external auditors. The researcher used a cross-sectional sample of 142,193 firm-year observations from 46 countries over 1998-2007." The study concluded that the administration excellence of a country has a considerable outcome on the selection of Big 4 auditors by firms. And the countries preferred to choose Big 4auditors than non auditors.

Cohen et al (2011) examined whether a principle based standard lead auditors to become more focused on economic substance than a rule based standards. The study used an experimental approach with experienced auditors as participants and indicated that under either enforcement regime a principle based standards results in less aggressive reporting in terms of more accurately representing the economic substance of the transaction and highlighted that IFRS would not have improved accounting quality.

Sharma (2010) studied the impact of IFRS adoption on legal profession in different countries through literature based survey. The researcher concluded that the legal profession must adopt and evolve the change in global financial reporting system through the new laws would be as a result of switch lawyers must provide special care for legal documents as per new laws. It faced so many benefits and adverse effects but it had positively helped to the economic growth.

Vera Palea (2013) investigated the effects of IFRS for separate financial statements on a sample of Italian firms and studied if splitted financial statements are useful to capital market investors and IFRS are new applicable option than GAAP. The study founded the relevance of statement under IFRS instead of GAAP. The study concluded with findings that were robust for book value, where as provided mixed evidence on net income.

Callao et al (2007) studied the move towards IFRS in Spain and its effects on significance and comparison of reports of accounitng issues in Spain. The study aimed at differences in accounting figures and ratios under Spanish standards and IFRS by using a sample of IBEX -35 firms. The researcher used both type of presentation of financial statements for comparison and concluded that local comparability was adversely affected with the application of both standards at the same time. There was no perfection in accounting issues IFRS but improved usefulness attained in mediumtolong term

Fosbre et al (2009) looked at the implication of the SEC choice to permit overseas companies for IFRS in financial reporting exclusive of compromising to US GAAP on investors, MNCs, and global accounting standard was required as it reported higher revenues and lead to more stabilized and prosperous world economy.

Sarbpriya ray (2012) studied the changes and penalty on financial statements with IFRS implications and observed the effects of intended convergence of IFRS on financials of Wipro ltd. The researcher used annual reports of Wipro and analysis the data and concluded that there was not a lot deviations in net income but it's important in case of liability and equity. Returns were not appreciably affected with the move towards IFRS and liquidity, total equity & total liability had significant affected by convergence to IFRS but not major changes in the position of total assets.

Tripathi & Gupta (2012) studied the provision of IFRS along with its differences with I GAAP and result of IFRS adoption in India. The study concluded that IFRS will greatly enhance increase in foreign capital flows and also at low cost. IFRS will be beneficial for cross border listing & investment, international trade and corporate governance practices. It will provide comparable, reliable and transparent financial statements.

Soderstrom (2007) considered the penalty of changing standards and discussed the accounting quality with the transition to IFRS and concluded that adopting IFRS as global standards had positive impact on accounting quality and the factors which impacted on accounting quality were

1. Quality of standards
2. legal and political system and
3. financial reporting incentives.

Objectives of the Study

1. To study the impact of IFRS on financial performance of pharmaceutical companies.
2. To compare the performances of public and private sector companies under I GAAP and IFRS.

II. RESEARCH METHODOLOGY

The financial data has been collected through secondary data sources for 10 years from 2006-2007 to 2015-2016.

For the purpose of analysis of this research work following statistical techniques has been used

1. T Test: To test the significance of financial performance difference between IFRS & I GAAP.
2. Correlation: To compare the performance of public and private sector companies in India.

III. ANALYSIS OF THE RESULTS:

An attempt has been made to know the impact of IFRS on financial performance of the companies. In this section the researcher has compared four financial ratios of the selected companies under Indian GAAP and IFRS. For this purpose , data has been collected from annual reports of the companies. Some companies have not mentioned their statements under IFRS for some years out of 10 years selected for the study, i.e. 2006-07

to 2015-16. The researcher has prepared their reporting as per data available and measure their financial ratios under IFRS. The study also reconciled the profitability measures to find out difference due to convergence with IFRS.
For making comparison between profitability as per Indian GAAP and IFRS some profitability ratios have been taken into consideration. 4 profitability measures have been taken into consideration for comparison. Following are the profitability ratios which have been taken into consideration:

1. Net Profit Ratio
2. Return on Capital Employed
3. Return on Shareholders' Fund
4. Basic Earnings Per Share (EPS)

Following tables shows the comparison and reconciliation of profitability indicators of the companies and 10 years.
Net Profit Ratios: This ratio is the very first indicator ratio which is necessary to check direct impact on total profitability of a company. Net Profit ratio is relation between Net Profit after taxes and Net sales of a company.

Table 1 net profit ratios of the companies

Companies / Year	Dr. Reddy Lab			HAL		
	Under IGAAP	Under IFRS	Reconciliation	Under IGAAP	Under IFRS	Reconciliation
2006-07	14.54	16.24	-1.7	-43.61	-32.14	-11.47
2007-08	8.43	7.67	.76	-17.26	-9.83	-7.43
2008-09	-13.10	-7.44	-5.66	-15.12	-11.26	-3.86
2009-10	4.92	1.52	3.40	-37.13	-25.94	-11.19
2010-11	13.23	14.78	-1.55	-50.8	-34.56	-16.24
2011-12	13.07	14.74	-1.67	-95	-88.43	-6.57
2012-13	12.67	14.42	-1.75	-133	-114.78	-18.22
2013-14	14.45	16.28	-1.83	-279	-253.92	-25.08
2014-15	15.27	14.97	0.3	-286	-81.44	-204.56
2015-16	13.47	12.95	0.52	-489	-132.27	-356.73

Source: Authors' Calculations

Table 1 shows the results of net profit ratios calculated from the financial statements of Dr. Reddy Lab. And HAL for 10 years. Table includes net profit under I GAAP, IFRS and Reconciliation. Above table shows that In Dr. Reddy Lab , IFRS have significant impact on Indian GAAP as the reconciliation shows the variations between I GAAP and IFRS. Positive reconciliation shows the low net profit ratio under IFRS whereas negative reconciliation shows the high net profit ratio under IFRS as compared to net profit ratio under I GAAP. As in the year 2006-07 there is a negative reconciliation i.e. (1.7). It shows that in the year 2006-07 the company had better net profit ratio under IFRS as compare to IGAAP. But in year 2007-08, 2009-10, 2014-15 and 2015-16 there is a positive reconciliation i.e. 0.76, 3.40, 0.3 and 0.52 respectively. It shows that in the year 2006-07 the company had worse net profit ratio under IFRS as compared to IGAAP. So there is negative reconciliation in rest of the years. So financial profits under IFRS proves better than the financial profits under I GAAP. Table 1 also shows the results of net profit ratios calculated from the financial statements of HAL for 10 years. As table shows , there is negative reconciliation in all the years. Though the company having net loss for the years but under IFRS the loss is lesser as compared to loss under IGAAP. So financial results under IFRS proves better than the financial results under I GAAP.

Return on Capital Employed: This ratio is an indicator which shows that company is giving how much return on capital employed. This ratio shows the relation between Profit before taxes and capital employed.

Table 2: ROCE of the companies.

Companies/ Year	Dr. Reddy Lab			HAL		
	Under IGAAP	Under IFRS	Reconciliation	Under IGAAP	Under IFRS	Reconciliation
2006-07	22.10	18.17	-3.93	-21.71	-9.24	-12.47
2007-08	9.85	4.34	-5.51	-11.25	-3.90	-7.35
2008-09	15.99	6.98	-9.01	-13.35	-6.04	-7.31
2009-10	16.88	4	-12.88	-27.8	-11.64	-16.16
2010-11	26.38	23.05	-3.33	-34.38	-11.37	-23.01
2011-12	26.8	24.3	-2.5	-87.45	-30.56	-56.89
2012-13	27.65	24.55	-3.10	-99.36	-31.95	-67.41
2013-14	25.84	22.90	-2.94	-164.74	-43.41	-121.33
2014-15	24.62	21.54	-3.08	-106.89	-9.39	-97.5

2015-16	20.31	18.98	-1.33	-124.15	-11.95	-112.2

Table 2 shows the results of return on capital employed calculated from the financial statements of dr. reddy's lab for 10 years. Above table shows that IFRS have significant impact on Indian GAAP as the reconciliation shows the differences between Indian GAAP and IFRS. Positive reconciliation shows the low net profit ratio under IFRS whereas negative reconciliation shows the high return on capital under IFRS as compared to return on capital under I GAAP. As the above table shows that there is a negative reconciliation for all the 10 years from 2006-07 to 2015-16. Which shows that return on capital employed under IFRS proves better than the return on capital employed under I GAAP. Table 2 also shows the results of return on capital employed calculated from the financial statements of HAL for 10 years. Above table shows that IFRS have significant impact on Indian GAAP as the reconciliation shows the differences between Indian GAAP and IFRS.. As the above table shows that there is a negative reconciliation for all the 10 years from 2006-07 to 2015-16. Which shows that return on capital employed under IFRS proves better than the return on capital employed under I GAAP.

Return on Shareholders' Funds:

This ratio shows that how much return is ultimately received by shareholders who are the ultimate owners of the company. This ratio is a relation between Profit after taxes and shareholders fund.

Table 3 ROSF of the companies

Companies/ Year	Dr. Reddy Lab			HAL		
	Under IGAAP	Under IFRS	Reconciliation	Under IGAAP	Under IFRS	Reconciliation
2006-07	24.15	28.80	-4.65	-46.81	-9.689	-36.92
2007-08	9.72	8.10	1.62	-26.94	-4.19	-22.75
2008-09	26	12.29	13.71	-33.79	-6.33	-27.46
2009-10	9.31	2.48	6.83	-66.34	-11.72	-54.62
2010-11	24.77	24	0.77	-70	-12.77	-57.23
2011-12	26.07	24.82	1.25	-100.78	-39.79	-60.99
2012-13	23.97	22.95	1.02	-96.74	-45.2	-51.48
2013-14	24.96	23.69	1.27	-117.46	-54.81	-62.65
2014-15	23.71	19.92	3.79	-98.38	-13.04	-85.34
2015-16	18.39	15.59	2.80	-104.41	-17.74	-86.67

Table 3 shows the results of return on shareholders' funds calculated from the financial statements of dr. reddy's lab for 10 years. Above table shows that IFRS have no significant impact on Indian GAAP as the reconciliation shows the minor differences between I GAAP and IF RS. Positive reconciliation shows the low return on shareholders' funds under IFRS whereas negative reconciliation shows the high return on shareholders' funds under IFRS as compared to return on capital under I GAAP. As the above table shows that there is a positive reconciliation for all the years except the year 2006-07, which shows that return on shareholders' funds under I GAAP proves better than the return on shareholders' funds under IFRS. Table 3 also shows the results of return on shareholders' funds calculated from the financial statements of HAL for 10 years. Above table shows that IFRS have significant impact on Indian GAAP as the reconciliation shows the minor differences between Indian GAAP and IFRS. As the above table shows that there is a negative reconciliation for all the 10 years from 2006-07 to 2015-16. Which shows that return on shareholders' fund under IFRS proves better than the return on shareholders' fund under I GAAP.

BASIC EPS: This ratio indicates that how much is the company's earnings which can be allocated on each share.

Table 4 Basic EPS of the companies

Companies/ Year	Dr. Reddy Lab			HAL		
	Under IGAAP	Under IFRS	Reconciliation	Under IGAAP	Under IFRS	Reconciliation
2006-07	60.92	58.82	2.1	-7.61	-8.75	1.14
2007-08	26.07	22.82	3.19	-2.87	-3.76	0.89
2008-09	-54.48	-30.69	-23.79	-3.08	-2.09	0.99
2009-10	20.83	6.33	14.5	-6.97	-6.95	0.02
2010-11	59.06	65.28	-6.22	-11.30	-10.69	-0.61
2011-12	76.76	84.16	-7.4	-10.07	-11.06	0.99
2012-13	89.93	98.82	-8.89	-9.67	-7.36	-2.31
2013-14	115.45	126.52	-11.07	-0.01	-0.05	0.04
2014-15	137.18	130.22	6.96	-0.01	-0.05	0.04
2015-16	126.15	117.34	8.81	-0.01	-0.05	0.04

Table 4 shows the results of Basic EPS calculated from the financial statements of Dr. reddy lab. For 10 years. Above table shows that IFRS have significant impact on Indian GAAP as the reconciliation shows the differences between Indian GAAP and IFRS. Positive reconciliation shows the low EPS under IFRS whereas negative reconciliation shows the high EPS under IFR as compared to I GAAP. As in the year 2006-07 there is a positive reconciliation i.e. 2.1 and also positive in the years 2007-08, 2009-10, 2014-15 and the year 2015-16 . it shows that the company had better EPS under I GAAP as compare to IFRS. There is negative reconciliation in the years2008-09, 2010-11, 2011-12, 2012-13 and the year 2013-14 which shows the better EPS under IFRS as compared to IGAAP. Table 4 also shows the results of Basic EPS calculated from the financial statements of HAL for 10 years. Above table shows that IFRS have significant impact on Indian GAAP as the reconciliation shows the differences between I GAAP and IFRS. Positive reconciliation shows the low EPS under IFRS whereas negative reconciliation shows the high EPS under IFRS as compared to I GAAP. As the table shows there is a negative reconciliation for only two years i.e. 2010-11 and 2012-13. All the other years having positive reconciliation, which proves the better EPD under IGAAP as compared to EPS under IFRS.

Test of Significance of Differences of Financial Performances

After collecting data relating to profitability of 6 Companies researcher has calculated profitability ratios and to test the significance, researcher has applied t-test using SPSS and attempts to check the significance of differences of financial performances under I GAAP and IFRS . The following table shows the test of significance of net profit ratio under I GAAP and IFRS. The table shows the t-value at 95% confidence level and table value at 5% level of significance

Table 5 test of significance based on T- distribition

Companies	Net Pofit Ratios			ROCE			ROSF			Basic EPS		
	T value	Df	Signi ficance value	T value	Df	Significance value	T value	Df	Significance value	T Value	Df	Significance value
Dr.Reddy Lab	-1.224	9	0.252	4.248	9	0.002	0.156	9	0.879	-0.605	9	0.560
HAL	-1.599	9	0.144	-3.644	9	0.005	-8.033	9	0.000	-0.241	9	0.815

Above table shows that Dr. Reddy's Lab has significance value more than 0.05 in case of net profit ratios, ROSF and Basic EPS. So H0 is accepted and there is no significant difference in the net profit ratio of these companies under I GAAP and IFRS. But less than 0.05 in case of ROCE . So H0 is not accepted and there is a significant difference in the net profit ratio of these companies under I GAAP and IFRS. In public sector company, HAL, significance value is more than 0.05 in case of net profit ratios and Basic EPS. So H0 is accepted and there is no significant difference in the net profit ratio of these companies under I GAAP and IFRS. But less than 0.05 in case of ROCE and ROSF . So H0 is not accepted and there is a significant difference in the net profit ratio of these companies under I GAAP and IFRS.

It can be concluded that implementation of IFRS does not bring any significant difference on the net profit ratios, ROSF and Basic EPS of the private sector companies but implementation of IFRS bring significant difference on ROCE of Dr. Reddy Lab. The study also concluded that that implementation of IFRS does not bring any significant difference on the net profit ratios and Basic EPS of the public sector companies but implementation of IFRS bring significant difference on ROSF and ROCE of HAL.

Comparison of Financial Performance Under I GAAP and IFRS Between Public and Private Sector Companies

In the present section of this research study, the performance of selected companies under I GAAP and IFRS has been compared between public and private sector companies. Correlation analysis has been used to compare the performance of public and private sector companies.

Table 6 .1 Correlation of net profit of the companies

		net profit of dr reddy under i gaap	net profit of dr. reddy under ifrs	net profit of HAL under i gaap	net profit of HAL under ifrs
net profit of dr reddy under i gaap	Pearson Correlation	1	.963**	-.414	-.459
	Sig. (2-tailed)		.000	.234	.182
	N	10	10	10	10
net profit of dr. reddy under ifrs	Pearson Correlation	.963**	1	-.393	-.519
	Sig. (2-tailed)	.000		.261	.125
	N	10	10	10	10
net profit of HAL under i gaap	Pearson Correlation	-.414	-.393	1	.691*
	Sig. (2-tailed)	.234	.261		.027
	N	10	10	10	10
net profit of HAL under ifrs	Pearson Correlation	-.459	-.519	.691*	1
	Sig. (2-tailed)	.182	.125	.027	
	N	10	10	10	10

Table 6.2 Correlation of ROCE of the companies

		return on capital employed of dr reddyunder IGAAP	return on capital employed of dr. reddyunder IFRS	return on capital employed of halunder IGAAP	return on capital employed of halunder IFRS
return on capital employed of dr reddyunder IGAAP	Pearson Correlation	1	.939**	-.605	-.665*
	Sig. (2-tailed)		.000	.064	.036
	N	10	10	10	10
return on capital employed of dr. reddyunder IFRS	Pearson Correlation	.939**	1	-.674*	-.619
	Sig. (2-tailed)	.000		.032	.056
	N	10	10	10	10
return on capital employed of halunder IGAAP	Pearson Correlation	-.605	-.674*	1	.740*
	Sig. (2-tailed)	.064	.032		.014
	N	10	10	10	10
return on capital employed of halunder IFRS	Pearson Correlation	-.665*	-.619	.740*	1
	Sig. (2-tailed)	.036	.056	.014	
	N	10	10	10	10

Table 6.3Correlation of ROSF of the companies

		return on shareholders fund of dr reddy under igaap	return on shareholders fund of dr reddy under ifrs	return on shareholders fund of HAL under igaap	return on shareholders fund of HAL under ifrs
return on shareholders fund of dr reddy under igaap	Pearson Correlation	1	.445	-.081	.065
	Sig. (2-tailed)		.197	.824	.858
	N	10	10	10	10
return on shareholders fund of dr reddy under ifrs	Pearson Correlation	.445	1	-.415	-.481
	Sig. (2-tailed)	.197		.233	.160
	N	10	10	10	10
return on shareholders fund of HAL under igaap	Pearson Correlation	-.081	-.415	1	.770**
	Sig. (2-tailed)	.824	.233		.009
	N	10	10	10	10
return on shareholders fund of HAL under ifrs	Pearson Correlation	.065	-.481	.770**	1
	Sig. (2-tailed)	.858	.160	.009	
	N	10	10	10	10

Table 6.4 Correlation of Basic EPS of the companies

		basic EPS of dr reddy under IGAAP	basic EPS of dr reddy under IFRS	basic EPS of HAL under IGAAP	basic EPS of HAL under IFRS
basic EPS of dr reddy under IGAAP	Pearson Correlation	1	.981	.243	.226
	Sig. (2-tailed)		.000	.499	.530
	N	10	10	10	10
basic EPS of dr reddy under IFRS	Pearson Correlation	.981	1	.228	.230
	Sig. (2-tailed)	.000		.527	.522
	N	10	10	10	10
basic EPS of HAL under IGAAP	Pearson Correlation	.243	.228	1	.973
	Sig. (2-tailed)	.499	.527		.000
	N	10	10	10	10
basic EPS of HAL under IFRS	Pearson Correlation	.226	.230	.973	1
	Sig. (2-tailed)	.530	.522	.000	
	N	10	10	10	10

Above table shows that there is negative correlation between net profit, ROCE, ROSF of Dr. Reddy Lab and HAL under I GAAP and IFRS. But there is positive correlation between Basic EPS of Dr. Reddy Lab and HAL under I GAAP and IFRS of public and private sector companies. On the other side , there is a positive correlation between net profit, ROCE, ROSF and Basic EPS of Dr. Reddy Lab and HAL under I GAAP and IFRS, when compared under two standards within the same company. The significance value of net profit , ROCE, ROSF and Basic EPS is more than 0.05 in comparison of public and private sector companies. So H0 is accepted, and there is no significant correaltion between financial performance of public and private sector companies. But when the performance is compared under two standards within the same company, the significance value is more of ROSF is more than 0.05 . So H0 is accepted and there is no significant correaltion between ROSF of both the companies under IGAAP and IFRS. But significance value of net profit , ROCE, and Basic EPS is less than 0.05. So H0 is not accepted and there is significant correaltion between net profit , ROCE, and Basic EPS of both the companies under IGAAP and IFRS

IV. SUMMARY AND CONCLUSION

On comparing profitability as per IFRS and Indian GAAP for the Financial year 2006-07 to the year 2015-16. Researcher has been reached at following conclusions:

On applying statistical tools it was found that there is nosignificant differencebetween Profitability as per IFRS and Indian GAAP and null hypothesis is satisfied in most of the cases .
Although statistical tools accepts null hypothesis between profitability as per Indian GAAP andIFRS but there is still significant difference between various profitability measures. Although the percentges of difference are very short but in reality amounts are significantly changed and are material in nature.
private sector companies are highly affected due to convergence process.

there is negative correlation between net profit, ROCE, ROSF of Dr. Reddy Lab and HAL under I GAAP and IFRS. But there is positive correlation between Basic EPS of Dr. Reddy Lab and HAL under I GAAP and IFRS of public and private sector companies. On the other side , there is a positive correlation between net profit, ROCE, ROSF and Basic EPS of Dr. Reddy Lab and HAL under I GAAP and IFRS, when compared under two standards within the same company

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