

AN EMPIRICAL STUDY ON EFFECT OF FINANCIAL LEVERAGE ON FIRM'S PERFORMANCE AND VALUATION OF SELECTED PHARMACEUTICAL COMPANIES IN INDIA

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ABSTRACT

In this research an attempt has been made to study the empirical relationship between financial leverage and firm's performance and valuation of selected pharmaceutical companies in India. Researcher has collected secondary data from different website and annual reports of selected companies. The sample size was of five pharmaceutical companies. The study period was five year from 2012-13 to 2016-17. The research has built four regression models to measure the effect of financial leverage on financial performance and valuation of firm. Two models are related to examine the impact of financial leverage on financial performance and two models are related to examine the impact financial leverage on valuation of selected firms. The result of the regression explained that financial leverage has negative but insignificant impact on Tobin's Q and financial leverage has positive but insignificant impact on enterprise value. The impact of financial leverage on ROA is positive and insignificant. The impact of financial leverage on EVA is negative and insignificant. Thus it is concluded that the financial leverage has an insignificant impact on financial performance and valuation of firms. Hence findings of the study are inconsistent with findings of review of literature.

KEYWORDS: *Financial Leverage, EVA, ROA, Financial Performance, Regression Models.*

Introduction

Growth of economy depends on growth and development of corporate sector. Sectors like cement, steel, it, Aluminum, tea, rubber, automobile etc is growing sectors. However pharmaceutical sector is very important sector because it contributes huge in Indian economy. Moreover growth of this sector is also needed because it is directly related to health of people of the nation. Society faces the challenges of new incurable disease which creates high risk among the people of society. Every nation wants hygenic society. Thus pharmaceutical sector is very significant. However R & D activities are centre point in Pharmaceutical industry which pressures the management to spend more on R& D activities. Spending on R& D activities is directly concerned with financial performance. Several studies have been conducted to examine certain issues which are directly connected with value of corporate entity. Significant research issues like financial decision, capital budgeting decision, capital structure decision and dividend policy decision have attracted researcher to explore different dimension of these issues.

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Financial decisions are very complex decision because decision maker has to think about many dimensions like source of fund, cost of capital, requirement of long term fund and short term fund and feasibility of the project etc. however financial decisions have long term implication on firm's profit. An element of risk is also inherent in financial decision. In order to construct capital structure, financial manager has two options debt and equity. Proper mix of debt and equity is required otherwise chaotic situation will be created. It is said by David Durand in NI approach that higher amount of debt, higher will be the earning and lower will be the cost of capital. However higher amount of debt creates technical risk when first's profitability goes down. Therefore, each first firm should study the impact of debt burden on business. Coverability of interest on debt matters a lot for any firm otherwise firm will have a problem in future in meeting interest expenses. Financial leverage is also indicators of risk. Higher the financial leverage, higher is the ability to cover the bent burden by the firm.

Profile of Pharmacy Industry

India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume. Of late, consolidation has become an important characteristic of the Indian pharmaceutical market as the industry is highly fragmented. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the antiretroviral drugs used globally to combat AIDS (Acquired Immuno Deficiency Syndrome) are supplied by Indian pharmaceutical firms. The UN-backed Medicines Patent Pool has signed six sub-licences with Aurobindo, Cipla, Desano, Emcure, Hetero Labs and Laurus Labs, allowing them to make generic anti-AIDS medicine Tenofovir Alafenamide (TAF) for 112 developing countries.

Indian pharmaceutical sector is estimated to account for 3.1– 3.6 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms. It is expected to grow to US\$100 billion by 2025. The market is expected to grow to US\$ 55 billion by 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size. Branded generics dominate the pharmaceuticals market, constituting nearly 80 per cent of the market share (in terms of revenues). The sector is expected to generate 58,000 additional job opportunities by the year 2025.

Review of Literature

Researcher has reviewed research paper and articles related to the selected research topic and brief overview of review of literature is presented as below:

- **J.Thomas Connelly, Piman Limpaphayom and Ravi Lonkani (2015)** worked on Sustainability, Financial Leverage and Firm Valuation in Thailand. The conclusion of the research shows positive relation between increases in the sustainability index and increases in firm value and also a positive relation between changes in firm value and increases in sustainability efforts.
- **Zahoor Hussain Javeda, Huma Raob, Bader Akramc, Muhammad Fayyaz Nazir (2015)** The result of their study indicates that leverage has negative association with the efficiency of firm.
- Ahmadu Abubakar (2015) studied the Relationship between Financial Leverage and Financial Performance. Sample size was of 11 banks and time period was from 2005 to 2013. The result of research was that there is significance relationship between debt equity ratio and financial performance (ROE).
- **Muhammad Wajid Raza (2013)** studied an effect of financial leverage on firm performance. Sample size was 482 listed firms on KSE and time period was of six years (2004-2009).The study resulted that there is a negative relation between performance and leverage. Research has also framed second hypothesis to test relationship between leverage and profitability. The result of the hypothesis also shows insignificance relationship.
- **Amit Kumar Singh & Preeti Bansal (2016)** they studied financial leverage and its impact on financial performance. Sample size was of 58 companies which are listed on BSE & NSE. The study reveals that leverage has a significant negative impact on performance of firm. performance of firm is measure through EVA, ROA and Tobin's Q. **Georgeta Vintil , Elena Alexandra Nenu (2015)** studied an analysis of determinants of Corporate Financial Performance from the Bucharest Stock Exchange Listed Companies. Sample size of 46 companies listed on Bucharest Stock Exchange. Study period was from 2009-2013. Findings show that financial

performance is positively related with the size of company and numbers of employee. But there is a negative relation between market base size and total assets.

- **Enekwe et al (2014)** their study revealed that debt ratio and debt -equity ratio were negatively related with return on assets and interest coverage ratio is positively related with return on assets in Nigerian pharmaceutical companies.
- **Amarjit Gill & John D.Obradovich (2012)** they found that the effect of both corporate governance and financial leverage have been very different on manufacturing sector and service sector. The study further reveals that board size has a negative impact on value of manufacturing firms in America whereas audit committee, CEO duality, financial leverage, and insider holdings, firm size have positive impact on the value of firms in America.
- **Amit Kumar Singh (2016)** their study shows that leverage has a significance effect on dependent variably like EVA, ROA and Tobin's Q. Researcher has selected both types of variable performance indicators like EVA and ROA and firm's value indicators like Tobin's Q. Akinmulegun Sunday Ojo (2012).in their research study, they used two indicators as a measure of performance -Earning per share -Net assets per share. The study revealed that leverage has an impact on net assets per share which is also an indicator of corporate financial performance. It is also revealed by the study that leverage shock on earning per share has indirectly impact on net assets per share.
- **Muhammad Sajid, Amir Mahmood & Hazzor Muhmmad Sabir (2016)** conducted study on Does financial leverage influence investment decisions? Empirical evidence from KSE-30 index of Pakistan. The result of the study revealed that the financial leverage has negative relationship with investment decision which was also proved significant by OLS regression model.
- **Kuben Rayan (2008)** held research on financial leverage and firm value. The research resulted that there is inverse correlation between financial leverage and value of firm. The effect of interest on capital structure is inconclusive.
- **David Granath and Per Thorsell (2014)** studied Leverage and how it affects shareholder value. The study concluded that leverage has a positive effect on shareholder value. Mukaria Henry Kimathi, et al.(2015). The result of the study found negative insignificant relationship between performance of firm and leverage with relationship. The study also found that there is insignificant relationship between large levered firms and small levered firms.
- **Robert Kisavi Mule & Mohamed Suleiman Mukras (2015)**The research revealed three categories of conclusion (1) leverage is negatively related to financial performance measure ROA, ROE and Tobin's Q (2) ownership concentration is also negatively correlated with ROA, ROE, and Tobin's Q and (3) Assets tangibility is only positively related which established significance relationship.
- **Kale Ahmed Ali (2015)** The result of the study explained that indicators of financial performance measure like ROA, ROE are negatively impacted by financial leverage whereas Tobin's Q as an indicator of financial performance is positively impacted by leverage.
- **Morteza Dadgostar Moghadam and Mehrnoosh Jafari (2015)** The study also revealed that financial leverage is positively related with performance of selected firms and "t" test also indicated that the relationship is significant.
- **M.Ramana Kumar (2014)** The study concluded that Degree of operative leverage is positively related with ROI and Degree of financial leverage is also positively related with ROI which is statistically insignificant. But combine degree of leverage is positively correlated with ROI but statistically it is insignificant.
- **Maher Odeh Al-Shamaileh, Salim. M. Khanfar (2014)** the study revealed that there is a significance impact of financial leverage on profitability indicator (ROI).
- **Nhung Thi Hong Bui (2017)** did research on the impact of financial leverage on firm performance on listed oil and gas companies in England. The study revealed that financial leverage measure through LTD & TD has negatively impacted on financial performance which is measured through ROA & ROE. However, short term debt to total assets is negatively related to ROA and ROE which is also proved statistically insignificantly. Nawaz Ahmad, Atif Salman and

Aamir Firoz Shamsi (2015) The study concluded that the financial leverage has impacted on profitability which is also proved statistically significance by 't' test.

- **Omer Farooq, Abu Bakar Sani & Bilal Aziz (2017)** did work on Impact of Financial Leverage on Performance of Sugar Firms from Pakistan Stock Exchange (PSE). The study revealed that financial leverage is positively related with the indicators of financial performance ROA, ROE, Growth and Firm size.
- **Adenugba, Adesoji Adetunji, IGE, Abayomi Akinyemi & Kesinro, Olalekan Rasheed (2016)** worked on Financial Leverage And Firms' Value of Selected Firms In Nigeria. The researcher used t test. The research study revealed that leverage and firm value is positive correlation with firm value. The result of test indicates that calculated value of t test is greater than critical value. Hence the result is significant.
- **Nahin Israt Shamsi and Tasrin Farjana (2016)** investigated the Impact of Financial Leverage on Firm Performance. The study explained that Performance of firm is significantly negatively impacted by financial leverage.
- **Wan Shahzinda Shah Bt Shahar & Wan Shahdila Shah Bt Shahar (2015)** studied the Impact of Firm Leverage to Performance from Shariah and Non-Shariah Compliant Companies in Malaysia. The result of the research indicated debt ratio did not have an impact on ROA and ROE but Short -term and long term has an impact on firm's performance (Market value to book value) however the relationship was negative.

Objectives of the Study

Objectives of the research study are as follows:

- To study the variable of financial leverage and variables of valuation of firm
- To examine the effect of Financial Leverage on Firm's Performance and Valuation of selected pharmaceutical companies in India
- To give suggestions to financial manager to design capital structure in order accelerate the financial performance and value of the firm

Methodology of the Study

Sources of Data

"An empirical study on effect of Financial Leverage on Firm's Performance and Valuation of selected pharmaceutical companies in India" has been made by using data from financial statements of all five years of selected Pharmaceutical companies. The period of the study was five year from 2012-13 to 2016-2017. Convenient sampling technique has been used by the researcher and type of research is analytical. The data have been collected from capitaline database, moneycontrol.com, monypore.com and from the annual reports of the respective companies. Analysis and interpretation of data have been carried out using the Statistical techniques such as descriptive statistics, correlation and multiple regressions using SPSS package.

Theoretical Background

To examine relationship between Financial Leverage on Firm's Performance and Valuation of selected pharmaceutical companies in India, regression model has been used. Researcher has selected some indicators for the valuation of firm. The indicators of valuation of firm are Return on Equity, Profitability, EVA, Tobins'Q, and Growth in sales. All these indicators are extracted from the past studies. Researcher has constructed four models to examine the relationship between financial leverage and valuation of firm:

Model-1

Researcher has used Return on assets as performance indicators with debt equity ratio, labour cost, size of firm, growth rate and tangibility. ROA measures efficiency in utilization assets. Profitability is increased by efficiently utilization of assets.

- **Null Hypothesis:** factors like debt equity ratio, labour cost, size of firm, growth rate and tangibility do not impact significantly the ROA
- **Alternative Hypothesis:** factors like debt equity ratio, labour cost, size of firm, growth rate and tangibility impact significantly on ROA

$$\text{ROA} = \beta_0 + \beta_1(\text{D/E ratio}) + \beta_2(\text{labour cost}) + \beta_3(\text{size}) + \beta_4(\text{growth}) + \beta_5(\text{tangibility}) + \mu\text{it}$$

- **Data of Equation:** ROA Labour cost, firms sizes, growth in sales, tangibility have been obtained from moneycontrol.com. Firm size means natural logarithm of net sales and tangibility means is a ratio between fixed assets to total assets. Other data have been obtained from moneycontrol.com

• Model-2

Here researcher has Economic value added (EVA) as an indicators of firm's valuation with debt equity ratio, labour cost, firm size, weighted average cost of capital and tangibility. EVA measure shareholder's value creation and debt equity ratio, labour cost, firm size, weighted average cost of capital and tangibility are independent variables.

- **Null Hypothesis:** factors like debt equity ratio, labour cost, firm size, weighted average cost of capital and tangibility do not impact significantly EVA
- **Alternative Hypothesis:** factors like debt equity ratio, labour cost, firm size, weighted average cost of capital and tangibility impact significantly on EVA

$$\text{EVA} = \beta_0 + \beta_1(\text{D/E ratio}) + \beta_2(\text{labour cost}) + \beta_3(\text{size}) + \beta_4(\text{WACC}) + \beta_5(\text{tangibility}) + \mu\text{it}$$

- **Data of Equation:** EVA, Debt equity ratio, Labour cost, firms sizes, wacc, tangibility have been directly taken from moneycontrol.com. Firm size means natural logarithm of net sales and tangibility means a ratio between fixed assets to total assets. The formula for EVA has been taken as (EVA = Profit after Tax -WACC* (Total Assets - Current Liabilities).Other data have been taken from moneycontrol.com

• Model-3

Enterprise value is taken as firm's valuation indicator whereas debt equity ratio, labour cost, WACC, Profitability and tangibility are taken as independent variables.

- **Null Hypothesis:** factors like debt equity ratio, labour cost, WACC, Profitability and tangibility do not impact significantly enterprise value
- **Alternative Hypothesis:** factors like ratio, labour cost, WACC, Profitability and tangibility impact significantly on Enterprise value.

$$\text{Enterprise Value} = \beta_0 + \beta_1(\text{D/E ratio}) + \beta_2(\text{labour cost}) + \beta_3(\text{Size}) + \beta_4(\text{Profitability}) + \beta_5(\text{tangibility}) + \mu\text{it}$$

- **Data of Equation:** Enterprise value, Debt equity ratio, Labour cost, firms sizes, profitability, tangibility have been directly extracted from moneycontrol.com.tangibility is the ratio between net fixed assets to total fixed assets and profitability is the ratio between PAT to net sales.

• Model-4

Tobin's Q is the indicator of valuation of firm whereas debt equity ratio, labour cost, WACC, profitability and tangibility are the independent variables.

- **Null Hypothesis:** factors like debt equity ratio, labour cost, WACC, profitability and tangibility do not impact significantly Tobin's Q
- **Alternative Hypothesis:** factors like debt equity ratio, labour cost, WACC, profitability and tangibility impact significantly Tobin'sQ

$$\text{Tobin's Q} = \beta_0 + \beta_1(\text{D/E ratio}) + \beta_2(\text{labour cost}) + \beta_3(\text{wacc}) + \beta_4(\text{profitability}) + \beta_5(\text{tangibility}) + \mu\text{it}$$

- **Data of Equation:** Tobin's Q, debt equity ratio, labour cost, WACC, profitability and tangibility have been taken from money control site. Tobin's Q means the ratio between (Market Capitalization and Value of Debt) to Total Assets.

Data Analysis and Interpretation

Table-1 indicates descriptive Statistics of Dependent Variables which measures the financial performance of the selected firms. Mean of ROA, EVA Enterprise value and Tobin's Q is 10.17, 638.76, 65095.69 and 5.4 consecutively. The median of ROA, EVA Enterprise value and Tobin's Q is 10.04, 1049.56, 47484.42 and 3.82 consecutively. Whereas standard deviation of ROA, EVA, enterprise value and Tobin's is 9.43, 1394.84, 54495.43 and 2.58 respectively. Tobin's Q shows that there is no overvalued firm out of selected pharmaceutical firms.

Table 1: Descriptive Statistics of Dependent Variables

Statistic	ROA	EVA	Enterprise Value	TOBIN'Q
Mean	10.27	638.76	65095.69	5.40
Median	10.04	1049.56	47484.42	3.82
Standard Deviation	9.43	1394.84	54495.43	2.58
Kurtosis	1.41	2.51	3.72	1.46
Maximum	20.79	2094.10	158893.68	9.59
Count	5.00	5.00	5.00	5.00

Table 2: Descriptive Statistics of Independent Variables

Statistics	DE	Labour	Size	ROG	Tangibility	WACC	Profitability
Mean	0.24	2.98	4.09	10.50	0.29	4.09	10.50
Median	0.21	3.00	3.36	15.83	0.28	3.36	15.83
Standard Deviation	0.21	0.20	2.47	18.88	0.11	2.47	18.88
Kurtosis	2.21	-1.24	3.72	3.94	1.28	3.72	3.94
Maximum	0.59	3.17	8.36	23.69	0.44	8.36	23.69
Count	5.00	5.00	5.00	5.00	5.00	5.00	5.00

Table-2 explains descriptive statistics of independent variables which are having effect on financial performance. The mean of Debt equity ratio is (0.24%), labour cost (2.98%), firms size (4.09), rate of growth in sales (10.50%), tangibility (0.29%), weighted average cost of capital (4.09%) and profitability (10.50%). median of debt equity ratio (0.21%), labour cost(3%), size of firm(3.36), rate of growth (15.83%), tangibility (0.28), WACC (3.36%) and profitability(15.83%). The growth rate is appropriate whereas there is low risk exhibited by standard deviation. Profitability is also good. Maximum tangibility ratio (0.44%) which means that proportion of 44 % of the fixed assets to total assets. thus tangibility ratio shows 56% part left for current assets which are not good for profitability.

Table 3: Correlation Matrix

	D/E ratio	ROG in Sales	Labour cost	Size	WACC	Tangibility	Profitability
D/E Ratio	1.00						
ROG in Sales	0.41	1.00					
Labour Cost	-0.72	-0.60	1.00				
Size	-0.81	-0.33	0.94	1.00			
WACC	0.92	0.68	-0.89	-0.86	1.00		
Tangibility	0.63	0.58	-0.25	-0.21	0.60	1.00	
Profitability	0.17	0.62	0.15	0.31	0.20	0.78	1.00

Table-3 is related to correlation among independents variables. Correlation between D/E ratio and ROG in sales is 0.41 which is also positive. Whereas correlation between D/E ratio and labour cost (-0.72), D/E ratio and firm size (-0.81), D/E ratio and WACC (0.92), D/E ratio and tangibility (0.63) and D/E ratio and profitability (0.17).There is low correlation which meant that there is no collinearity. The correlation between ROG in sales and labour cost (-0.60), ROG in sales and firm size (-0.33), ROG in sales and WACC (0.68), ROG in sales and tangibility (0.58), ROG in sales and profitability (0.62) was found. Correlation between labour cost and firm size (0.94), labour cost and wacc (-0.89), labour cost and tangibility (-0.25), labour cost and profitability (0.15) has been found. Correlation between firm size and wacc (-0.86), size and tangibility (-0.21), firm size and profitability (0.31) was found. The correlation between wacc and tangibility (0.60) and WACC and profitability has been found. The correlation between tangibility and profitability (0.78) was seen. Some variable like labour cost and firm size negatively correlated with D/E ratio. Whereas variables like WACC, tangibility, are negatively connected with labour cost. WACC and tangibility are also negatively correlated with firm size. There is perfect correlation between WACC and D/E ratio. Labour cost and firm size are also perfectly correlated.

Table 4: Model 1 (Performance Measurement of Firm Through ROA)

Model-1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
ROA	-147.818	82.778		-1.786	.090
D/E ratio	5.007	21.851	.080	.229	.821
Labour cost	-72.469	27.269	-1.461	-2.658	.016
size	93.080	40.349	1.558	2.307	.032
ROG	.071	.067	.247	1.060	.302
Tangibility	43.553	23.416	.396	1.860	.078
Total observation	25				
R	0.750				
R Square	0.562				
F statistics	4.895				
Prob. (F statistics)	0.0047				
level of significance	5%				

Table-4 is related to multiple regressions where ROA as a Measure of firm's Performance. It is found that labour cost has negative significant impact on ROA. However other independent variables like D/E ratio, firm size, rate of growth and tangibility have positive relationship with ROA. But impact of D/E ratio on ROA is insignificant. Tangibility, rate of growth and D/E ratio have insignificant impact on ROA. Impact of Firm size, D/E ratio and tangibility has significant impact on ROA. The adjusted R^2 is 56.20% and F shows that model is highly significant.

Table 5: Model 2 (EVA as firm's Performance Measurement)

Model I		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	EVA	-23386.817	5954.471		-3.928	.001
	D/E ratio	-1727.643	2011.212	-.253	-.859	.401
	Labour cost	-5628.709	2905.521	-1.041	-1.937	.068
	size	10149.071	3451.759	1.558	2.940	.008
	wacc	118.278	132.615	.228	.892	.384
	Tangibility	5763.998	2153.210	.483	2.677	.015
	Total observation	25				
	R	0.818				
	R Square	0.667				
	F statistics	7.68				
	Prob. (F statistics)	0.00.				

Table-5 shows the results of multiple regressions. It has been found that EVA has been negatively impacted by D/E ratio Labour which is insignificant. Explanatory Variable like firm size, wacc, and tangibility has impacted positively. Impact of firm size and tangibility is significant. Whereas wacc, tangibility, and firm size have significant impact on EVA. The adjusted R^2 is 66.70% and the F test indicates that the model is highly significant.

Table 6: Model 3 (Enterprise Value has been Taken as a Measure for Financial Performance)

Model-3	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
Enterprise value	-89404.534	141623.880		-.631	.535
D/E ratio	83352.119	59054.722	.311	1.411	.174
Labour Cost	77960.079	42515.212	.367	1.834	.082
WACC	2628.903	5321.910	.129	.494	.627
Profitability	-733.576	374.677	-.337	-1.958	.065
Tangibility	-354249.453	84997.700	-.752	-4.168	.001
Total observation	25				
R	0.840				
R Square	0.706				
F statistics	9.13				
Prob. (F statistics)	0.000				

Table-6 is related to model -3 expressing enterprise values as an indicator of performance measure. Leverage has been positive but insignificant impact on enterprise value. Other independent variable like tangibility has negative but significant impact on Enterprise value. Whereas labour cost, wacc, and profitability has insignificant impact on Enterprise. The adjusted R^2 is 70.60% and the F test indicates that that the model-3 is highly significant.

Table 7: Model 4 (Tobin's Q is Taken as a Measure of Valuation of Firm)

Model-4		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	Tobin's Q	22.291	8.242		2.704	.014
	D/E ratio	-3.828	3.437	-.278	-1.114	.279
	Labour cost	-4.590	2.474	-.420	-1.855	.079
	wacc	.175	.310	.166	.564	.579
	Profitability	-.030	.022	-.268	-1.375	.185
	Tangibility	-9.393	4.947	-.388	-1.899	.073
	Total observation	25				
	R	0.789				
	R Square	0.623				
	F statistics	6.296				
	Prob. (F statistics)	0.001				

Table-7 displayed model-4 for Tobin's Q as measure of valuation of firm. Leverage has negative but insignificant impact on Tobin's q. Other independent variables like labour cost, profitability, and tangibility have negative but insignificant impact on Tobin's q. Independent variables like wacc has positive impact with insignificant relation. The adjusted R^2 is 62.30% and the F test explains that the model-4 is significant. This financial leverage has negative and insignificant on Tobin's Q and EVA. Financial leverage has also positive and insignificant impact on ROA and enterprise value.

Conclusion

The present study has been done to examine empirical relationship between Financial Leverage and Firm's Performance and Valuation of selected pharmaceutical companies in India: An empirical analysis. The two variable Tobin's Q and Enterprise value are the indicators of valuation of firm. Two variables ROA and EVA are the indicators of financial performance. The sample size was 10 (ten) companies. Researcher has used regression model to examine the impact of financial leverage on valuation and financial performance of pharmaceutical companies. The researcher has identified independent variables like labour cost, firm size, tangibility, profitability, WACC, and debt equity ratio. The researcher built four models of regression. Two models are related to examine the impact of financial leverage on financial performance and two models are related to examine the impact financial leverage on valuation of selected firms. The result of the regression explained that financial leverage has negative but insignificant impact on Tobin's Q. whereas financial leverage has positive but insignificant impact on enterprise value. The impact of financial leverage on ROA is positive and insignificant. Whereas impact of financial leverage on EVA is negative and insignificant. Thus it is that the financial leverage has an insignificant impact on financial performance and valuation of firms. Hence findings of the study are inconsistent with findings of review of literature.

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