

An Impact of Graded Surveillance Measure (GSM) on Financial Performance of Selected Indian Listed Pharmaceutical Companies

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ABSTRACT

During last few years many scams have come out in our country that leads to adverse impact on the interest of stakeholders who invest their hard-earned money in the companies. The faith of the investors reduces and they may switch over to some protected or closely control investment avenue or they may not invest at all due to unethical practices. This may lead to adverse impact on economic growth of the country. To avoid this consequences, Graded Surveillance Measure (GSM) is implemented as one of the measure of investors' protection. The aim of Graded Surveillance Measure (GSM) is to advise and alert investors to be more cautious while dealing in shortlisted securities. The main objective of the study is to analyse an Impact of Graded Surveillance Measure (GSM) on Financial Performance of Selected Indian Listed Pharmaceutical Companies. The researcher has analysed collected data of selected companies to understand the impact of Graded Surveillance Measure (GSM) on Financial Performance of Selected Indian Listed Pharmaceutical Companies.

Keywords-- Investors' Protection, Corporate Governance, India, Firm Financial Performance, Graded Surveillance Measure (GSM)

I. INTRODUCTION

During last few years many scams have come out in our country that leads to adverse impact on the interest of stakeholders who invest their hard-earned money in the companies. The faith of the investors reduces and they may switch over to some protected or closely control investment avenue or they may not invest at all due to unethical practices. This may lead to adverse impact on economic growth of the country. To build confidence of investors and other stakeholders it is important to adopt transparent, fair and accountable practices by corporates. It may be attained by imposing various investor protection measures that creates value for the stakeholders.

Good investors' protection environment creates value by improving financial performance of corporates because the funds of investors are utilised in a transparent and accountable manner or we can say that the purpose of investors' protection measures are to improve financial performance of organization.

This paper aimed to analyse the impact of investors' protection measures on financial performance of selected companies. Organization can achieve the objective of investors' protection measures through good financial performance. To measure financial performance, we can use various tools, ratios and techniques.

1.1 Graded Surveillance Measures (GSM)

In spite of various measures already implemented, SEBI and Exchanges in pursuant to discussions in joint surveillance meetings, have decided that along with the other measures there shall be Graded Surveillance Measures (GSM) on securities that witness an *abnormal price rise that is not commensurate with financial health and fundamentals of the company* which inter-alia includes factors like Earning, Book value, Fixed assets, Net worth, P/E multiple, etc.

Graded Surveillance Measures was introduced by SEBI on 23rd February, 2017.

Objectives of Graded Surveillance Measures (GSM)

1. Advise and alert investors to be more cautious while dealing in these securities and
2. Advise market participants to carry out necessary due diligence while dealing in these securities.

1.2 Financial Performance

Financial performance can be defined as the results of the operations and policies of a firm in monetary terms (BusinessDictionary.com, 2013). The financial performance of companies may be influenced by internal managerial decisions (for example the financing of assets) and by external factors (such as a financial crisis). Although managers can exercise control over the internal corporate environment, they have very limited influence over changes in the external environment (Lussier, 2012: 56).

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting records. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports. The researcher attempts to measure the company's profitability, liquidity and other measurement that the business is conducted in a rational and normal way; companies are ensuring sufficient

returns to the shareholders to maintain at least its market value.

II. REVIEW OF LITERATURE

Rika et al. (2020) in their study, showed that "investor protection based on governance quality" in Indonesia has a negative effect on audit quality and corporate governance implementation. Meanwhile, "investor protection based on governance quality" in Singapore has a positive effect on audit quality and corporate governance implementation. In Indonesia, the variable of investor protection based on government and audit quality has no effect on earnings quality, but it does in Singapore. Corporate governance implementation has a positive effect on earnings quality for both Indonesia and Singapore.

Knut J. Michelberger (2017) concluded that the study provides empirical evidence that main elements of the German corporate governance system are irrelevant for shareholders and other stakeholders or are even against their interests. It has been concluded from the results of the quantitative and qualitative data analysis.

Faizul Haque and Thankom G. Arun (2016) investigated the effect of the firm-level corporate governance on market, as well as accounting-based financial performance of a firm. The evidence confirms the prediction of the agency theory in that corporate governance quality is positively associated with firm valuation.

Hisnol Jamali et al. (2015) found that the system of corporation which proxy by the individual shareholding whether it is direct or indirect through the effort efficiency cannot increase the performance of corporation financial which measured with ROA and Tobin's Q. The practice of social responsibility of corporation as the corporation's concern for the environment and society can increase the business efficiency and operational performance of corporation (ROA) the study further found that Financial performance of corporation can be increased by the practice of social responsibility of companies and business efficiency.

G. Madan Mohan and Marimuthu (2015) have established that an emphasis on corporate governance may or may not have a telling effect on financial performance of a firm. However, if a firm has two different persons as its Chairman and Managing Director, its performance might have an upsurge. Similarly, existence of promoters in board may also enhance the financial performance of firms. Promoters possess higher degree of interest in the growth and prosperity of the firm as they treat the firm as their own child. Hence, more promoters in the board will definitely enhance the performance of a company.

Nadia Mans-Kemp (2014) observed negative association between CGS (corporate governance score)

and TSR (total share return), it seemed as if corporate governance compliance is, to a certain extent, not properly understood or appreciated. However, if more shareholders come "on board" by realizing and appreciating the possible benefits associated with sound corporate governance compliance, such as positive risk-adjusted returns, the need to legislate corporate governance compliance in future could be avoided. Directors, managers and stakeholders should realise that sound corporate governance compliance is essential – and not optional – to firms' long-term success.

Priyanka Aggarwal (2013) found that all the correlation coefficients (R) are positive and approximately close to 50%. Thus, there is positive correlation between corporate governance and corporate profitability.

Yonggiang Li et al. (2012) Studied empirically and examined the impact of investors protection on financial performance of Islamic banks based on an unbalanced panel data collected from 91 Islamic banks and financial Institutions worldwide across 1991-2010. Econometric techniques were adopted to specify the models. The result of study showed the stronger investor protection results in better financial performance in the Islamic banking and financial Institution.

2.1 Research Gap

Many studies have been conducted on investors' protection measures but no study in this area has been conducted using Graded Surveillance Measures (GSM) and its impact on financial performance of shortlisted companies. Thus, the researchers have made an attempt to explore this method to study an impact of investors' protection measures on financial performance of selected companies listed on BSE.

III. RESEARCH METHODOLOGY

3.1 Importance / Rationale of the Study

Now a day's many types of scams related to stock market come out, internal trading and window dressing are the example relating to such kind of scams. To protect interest of investors, SEBI introduced various frameworks to control the abnormal price rise which is not commensurate with financial health and fundamentals of the companies. Thus, there is a need to analyse various surveillance measures of SEBI.

3.2 Problem Statement

The aim of the paper is to analyze the impact of investors' protection measures on financial performance of selected companies.

3.3 Objective of the Study

The objective of the study is to analyse the Impact of Graded Surveillance Measure (GSM) on Financial Performance of Selected Indian Listed Pharmaceutical Companies.

3.4 Scope of the Study

- The study has been undertaken to study the impact of GSM on financial performance of selected companies listed in BSE.
- Area of study is restricted to only those companies which are selected wherein GSM is applicable.
- The list of GSM shortlisted securities was accessed on 17/10/2017.

3.5 Hypothesis

On the basis of theory and literature review and keeping in view the research objectives, hypothesis has been formulated as follows:

H0: There is no significant difference between Pre and Post implementation of GSM on Financial Performance of Selected GSM Pharmaceutical Companies.

The above hypothesis is analyzed by framing following sub hypotheses:

H0₁: There is no significant difference Financial Performance between Pre and Post implementation of GSM on Net Profit Margin of Selected GSM Pharmaceutical Companies.

H0₂: There is no significant difference between Pre and Post implementation of GSM on Return on Assets of Selected GSM Pharmaceutical Companies.

H0₃: There is no significant difference between Pre and Post implementation of GSM on Current Ratio of Selected GSM Pharmaceutical Companies.

H0₄: There is no significant difference between Pre and Post implementation of GSM on Debt Equity Ratio of Selected GSM Pharmaceutical Companies.

H0₅: There is no significant difference between Pre and Post implementation of GSM on Earning Per Share of Selected GSM Pharmaceutical Companies.

3.6 Type of Research Design

This research applies the descriptive research.

3.7 Sources of the Data

Secondary data has been collected from various research papers, doctoral thesis and other documents like notification/circular/annual report, Prowess IQ database of CMIE etc.

3.8 Sample Size

Total 10 pharmaceutical companies are selected for the study from list of companies shortlisted under GSM.

3.9 Sample Design

Sampling Unit

Companies shortlisted under GSM.

Sample Size

Following GSM shortlisted companies have been considered for the study. The list was accessed on 17/10/2017:

Table 1: List of selected GSM Pharmaceutical Companies

Sr. No.	Name of Company
1	Kamron Laboratories Ltd.
2	Bacil Pharma Ltd.
3	Shiva Medicare Ltd.
4	Crestchem Ltd.
5	Decipher Labs Ltd.
6	Kabra Drugs Ltd.
7	Parmax Pharma Ltd.
8	Raymed Labs Ltd.
9	Venmax Drugs & Pharmaceuticals Ltd.
10	Welcure Drugs & Pharmaceuticals Ltd.

3.12 Limitations of Study

- 1) Research work is limited to selected companies which are shortlisted under various investors' protection measures.
- 2) Time is a major constraint for this study.
- 3) Market based measures are not incorporated in the study.

IV. DATA ANALYSIS

To analyze the data, researcher has used five ratios namely EPS, Current Ratio, Net Profit Margin, ROA and Debt Equity Ratio

To check the financial performance of selected GSM companies, researcher has used pre and post situation analysis with the help of Paired Sample t-test and correlation. For the purpose of the analysis, total 10 years of data have been taken into consideration from 2011-12 to 2021-22. The GSM has been introduced by SEBI in the year 2017. Hence, five years from 2011-12 to 2016-17 is considered as Pre GSM period and 2016-17 to 2021-22 is considered as Post GSM period.

Table 2: Net Profit Margin of Selected GSM Pharmaceutical Companies

Name of Selected Companies	Average Pre GSM Performance	Average Post GSM Performance
Kamron Laboratories Ltd.	0.16	-12.91
Bacil Pharma Ltd.	-194.13	-81.09
Shiva Medicare Ltd.	-726.67	-231.03
Crestchem Ltd.	-92.37	-69.52
Decipher Labs Ltd.	-659.32	10.95
Kabra Drugs Ltd.	0.88	-393.96
Parmax Pharma Ltd.	13.33	0.51
Raymed Labs Ltd.	-140.00	-480.00
Venmax Drugs & Pharmaceuticals Ltd.	-112.45	-50.63
Welcure Drugs & Pharmaceuticals Ltd.	26.67	2.37

Table-2 shows the data of average of Net Profit Margin of selected GSM Pharmaceutical Companies from the year 2012-13 to 2016-17 as Pre GSM

Performance and from the year 2017-18 to 2021-22 as Post GSM Performance. Based on the above data Paired Sample t-test is calculated.

Table 3: Return on Asset of Selected GSM Pharmaceutical Companies

Name of Selected Companies	Average Pre GSM Performance	Average Post GSM Performance
Kamron Laboratories Ltd.	0.17	-6.78
Bacil Pharma Ltd.	-0.87	-4.32
Shiva Medicare Ltd.	-20.36	-14.15
Crestchem Ltd.	-9.90	5.69
Decipher Labs Ltd.	-23.56	3.16
Kabra Drugs Ltd.	1.19	-11.80
Parmax Pharma Ltd.	0.09	0.53
Raymed Labs Ltd.	-8.59	-25.44
Venmax Drugs & Pharmaceuticals Ltd.	-7.28	-46.94
Welcure Drugs & Pharmaceuticals Ltd.	59.40	7.37

Table-3 shows the data of average of Return on Asset of selected GSM Pharmaceutical Companies from the year 2012-13 to 2016-17 as Pre GSM Performance

and from the year 2017-18 to 2021-22 as Post GSM Performance. Based on the above data Paired Sample t-test is calculated.

Table 4: Current Ratio of Selected GSM Pharmaceutical Companies

Name of Selected Companies	Average Pre GSM Performance	Average Post GSM Performance
Kamron Laboratories Ltd.	1.02	0.31
Bacil Pharma Ltd.	2.53	0.16
Shiva Medicare Ltd.	0.29	60.12
Crestchem Ltd.	1.55	2.11
Decipher Labs Ltd.	1.50	2.52
Kabra Drugs Ltd.	1.35	0.76
Parmax Pharma Ltd.	23.52	0.53
Raymed Labs Ltd.	0.05	0.12
Venmax Drugs & Pharmaceuticals Ltd.	0.70	0.13
Welcure Drugs & Pharmaceuticals Ltd.	0.26	1.01

Table-4 shows the data of average of Current Ratio of selected GSM Pharmaceutical Companies from the year 2012-13 to 2016-17 as Pre GSM Performance

and from the year 2017-18 to 2021-22 as Post GSM Performance. Based on the above data Paired Sample t-test is calculated.

Table 5: Debt Equity Ratio of Selected GSM Pharmaceutical Companies

Name of Selected Companies	Average Pre GSM Performance	Average Post GSM Performance
Kamron Laboratories Ltd.	1.72	1.42
Bacil Pharma Ltd.	0.03	0.06
Shiva Medicare Ltd.	0.27	0.60
Crestchem Ltd.	0.83	0.28
Decipher Labs Ltd.	0.01	0.03
Kabra Drugs Ltd.	0.74	4.09
Parmax Pharma Ltd.	0.20	0.81
Raymed Labs Ltd.	0.25	0.33
Venmax Drugs & Pharmaceuticals Ltd.	3.67	3.45
Welcure Drugs & Pharmaceuticals Ltd.	1.02	1.35

Table-5 shows the data of average of Debt Equity Ratio of selected GSM Pharmaceutical Companies from the year 2012-13 to 2016-17 as Pre

GSM Performance and from the year 2017-18 to 2021-22 as Post GSM Performance. Based on the above data Paired Sample t-test is calculated.

Table 6: Earning per Share of Selected GSM Pharmaceutical Companies

Name of Selected Companies	Average Pre GSM Performance	Average Post GSM Performance
Kamron Laboratories Ltd.	0.01	-2.17
Bacil Pharma Ltd.	-0.08	-1.62
Shiva Medicare Ltd.	-0.82	-2.33
Crestchem Ltd.	-0.37	0.63
Decipher Labs Ltd.	-1.57	0.19
Kabra Drugs Ltd.	0.25	-0.77
Parmax Pharma Ltd.	-0.01	1.38
Raymed Labs Ltd.	-0.11	-0.13
Venmax Drugs & Pharmaceuticals Ltd.	-1.17	-0.37
Welcure Drugs & Pharmaceuticals Ltd.	0.03	0.01

Table-6 shows the data of average of Earning Per Share of selected GSM Pharmaceutical Companies from the year 2012-13 to 2016-17 as Pre GSM

Performance and from the year 2017-18 to 2021-22 as Post GSM Performance. Based on the above data Paired Sample t-test is calculated.

Table 7: Paired Samples T-Test of All Ratios of Selected GSM Pharmaceutical Companies

Hypotheses	Paired Differences					T	df	Sig. (2-tailed)	Reject /Fail to Reject
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference					
				Lower	Upper				
H0 ₄ : There is no significant difference between Pre and Post implementation of GSM on Financial Performance of Selected GSM Companies.									
The above hypothesis is analyzed by framing following sub hypotheses:									
H0 _{4a} : There is no significant difference Financial Performance between Pre and Post implementation of GSM on Net Profit Margin of Selected GSM Pharmaceutical Companies.	-57.85	325.06	102.79	-290.39474	174.67674	-0.563	9	0.587	Fail to Reject
H0 _{4b} : There is no significant difference between Pre and Post implementation of GSM on Return on Assets of Selected GSM Pharmaceutical Companies.	8.29	23.80	7.52	-8.73075	25.32475	1.102	9	0.299	Fail to Reject
H0 _{4c} : There is no significant difference between Pre and Post implementation of GSM on Current Ratio of Selected GSM Pharmaceutical Companies.	-3.50	21.06	6.66	-18.57235	11.56795	-0.526	9	0.612	Fail to Reject
H0 _{4d} : There is no significant difference between Pre and Post implementation of GSM on Debt Equity Ratio of Selected GSM Pharmaceutical Companies.	-0.36	1.09	0.34	-1.15410	.41890	-1.057	9	0.318	Fail to Reject
H0 _{4e} : There is no significant difference between Pre and Post implementation of GSM on Earning Per Share of Selected GSM Pharmaceutical Companies.	0.13	1.36	0.43	-0.84446	1.11526	0.313	9	0.762	Fail to Reject

The significance value (p value) of T-Test is more than 0.05 Hence there is no significant difference between Pre and Post Average of Various Ratio of Selected GSM Pharmaceutical Companies.

V. FINDINGS

- Paired sample T-test has been used for testing significant difference between Pre and Post Average of Various Ratios of Selected GSM Shortlisted Pharmaceutical Companies. All these null hypotheses (from H_{01} to H_{05}) have been failed to reject. Hence, it can be concluded that there is no significant association between Pre and Post implementation of GSM on various ratios of Selected GSM Pharmaceutical Companies.
- Hence, there is no impact of GSM on financial performance of Selected GSM Pharmaceutical Companies.

VI. SUGGESTIONS

- As far as GSM is concerned, management should not disclose certain confidential policies to be implemented or actions to be taken. By doing so they can prohibit abnormal price rise. Further management should take sufficient steps to prevent insider trading etc. that may lead to abnormal price rise.
- Investors' protection should act as a moral check on the part of companies and its management. Financial performance should be improved but in case of selected GSM shortlisted pharmaceutical companies there is no impact of GSM on financial performance of selected GSM shortlisted pharmaceutical companies. Hence, management of selected GSM shortlisted pharmaceutical companies has to take corrective action to improve their company's performance.
- Management should focus on improving financial performance so, their company will not be shortlisted under GSM or any other measures.

VII. CONCLUSIONS

From the data analysis, it can be inferred that there is no association between GSM short-listing and financial performance of selected GSM shortlisted pharmaceutical companies. Even after imposition of certain investors' protection measures like GSM financial performances are almost uniform. On the other hand, it is observed that if company is having good financial performance than there is a less chance of

imposition of any investors' protection measures because most of the selected companies are incurring losses and shortlisted under GSM.

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