

Financial Distress Analysis of Sun Pharmaceutical Industries Using Altman Z-Score

Submitted By

Akhil E A

Altman Z Score analysis

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1. Company Overview

Sun Pharmaceutical Industries Ltd is one of India's largest pharmaceutical companies and a global leader in specialty generics and branded formulations. The company operates across India, the US and emerging markets with a diversified portfolio including specialty drugs, APIs and over-the-counter products.

The pharmaceutical industry is characterized by regulatory oversight, R&D intensity and pricing pressures. Sun Pharma maintains a strong market position supported by scale, global presence and consistent cash flow generation. Its business model focuses on operational efficiency, specialty product growth and disciplined capital management.

2. Objective of Analysis

The objective of this analysis is to evaluate the financial distress risk and overall credit strength of Sun Pharmaceutical Industries using the Altman Z-score model for FY2024.

The analysis focuses on:

- Liquidity and solvency position
- Profitability and asset efficiency
- Financial stability and bankruptcy risk
- Overall creditworthiness

This assessment is conducted using financial data analyzed in Excel from a financial analyst perspective.

3. Methodology Used

Altman Z-Score Model

The Altman Z-score is a widely used model to assess financial distress risk by combining five key financial ratios covering liquidity, profitability, solvency and efficiency.

Formula:

$$Z = (1.2 \times X1) + (1.4 \times X2) + (3.3 \times X3) + (0.6 \times X4) + (1 \times X5)$$

Where:

- X1: Working Capital / Total Assets
- X2: Retained Earnings / Total Assets
- X3: EBIT / Total Assets
- X4: Market Value of Equity / Total Liabilities
- X5: Sales / Total Assets

Interpretation:

- $Z > 2.99 \rightarrow$ Safe zone
- $1.81-2.99 \rightarrow$ Grey zone
- $< 1.81 \rightarrow$ Distress zone

4. Financial Analysis & Findings

Altman Z-Score Result

Sun Pharma's calculated Altman Z-score for FY2024 is:

Z-score: 15.06

This is significantly above the safe zone threshold of 2.99, indicating extremely low financial distress risk and a very strong financial position.

Key Observations

Liquidity:

A healthy working capital to total assets ratio indicates strong short-term financial stability and efficient working capital management.

Profitability & Retained Earnings:

Strong retained earnings relative to total assets reflect consistent historical profitability and internal capital generation.

Operating Efficiency

EBIT-to-assets ratio indicates stable operating performance and efficient utilization of assets.

Solvency:

A very high market value of equity relative to liabilities significantly strengthens the solvency profile and provides a strong equity cushion.

Asset Utilization:

Stable sales-to-assets ratio indicates efficient use of assets in revenue generation.

5. Key Insights

- Sun Pharma is firmly positioned in the Altman safe zone.
- Strong retained earnings indicate sustained profitability.
- High market value of equity strengthens solvency position.
- Healthy liquidity supports operational stability.
- Low probability of financial distress or bankruptcy risk.
- Overall credit profile remains strong and stable.

6. Conclusion

The Altman Z-score analysis indicates that Sun Pharmaceutical Industries has a very strong financial position with negligible financial distress risk.

The company's high score reflects strong profitability, comfortable liquidity, efficient asset utilization and robust market valuation relative to liabilities. Sun Pharma demonstrates a stable balance sheet and strong creditworthiness from a financial risk perspective.

Overall, the company can be considered financially secure with strong long-term sustainability and low bankruptcy risk.

7. Learning Outcome

This analysis improved my understanding of financial distress prediction using the Altman Z-score model. It strengthened my ability to assess solvency, profitability and liquidity together to evaluate a company's financial stability and credit risk from a practical analyst perspective.