Ratio Analysis: The Searle Company Limited
Analysis Period: 2017-2021
Prepared by: Mustafa

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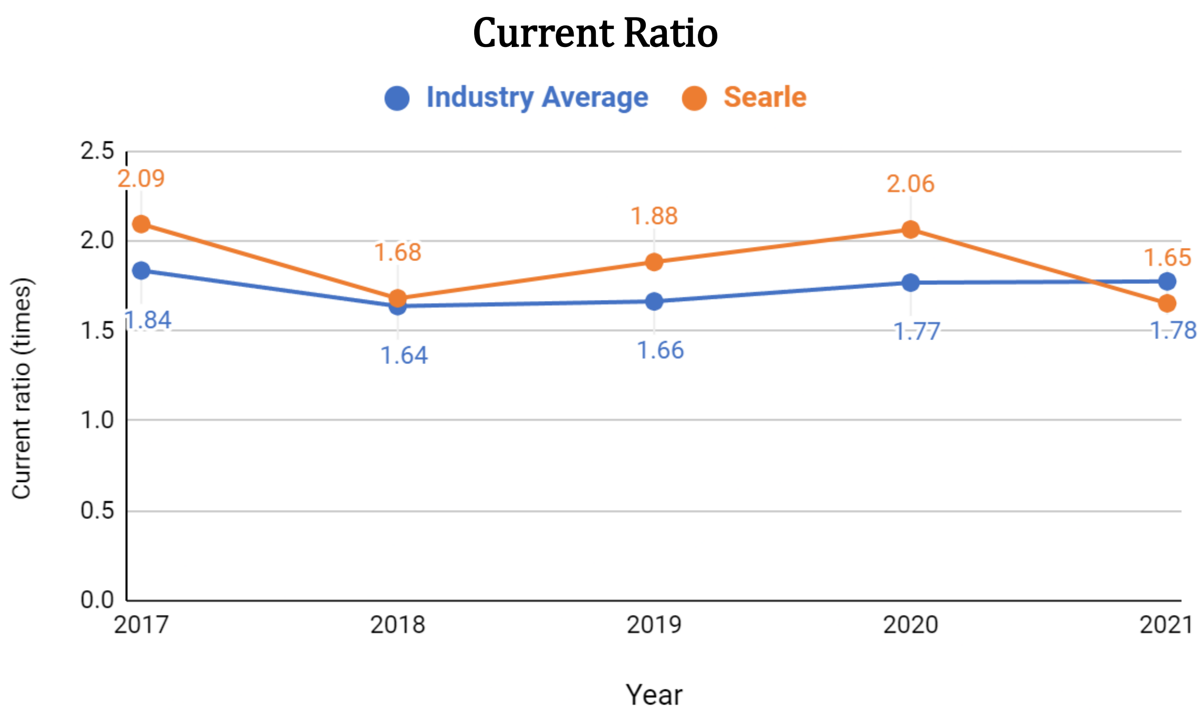


The current ratio gauges the ability of a business to pay its short-term obligations (due within one year). In essence, it reveals how well a business utilizes its current assets to cover its current liabilities.

Searle's current ratio showed an overall fluctuating trend during the years 2017 to 2021, from 2.09 in 2017 to 1.68 in 2021. The ratio declined in the year 2018 from 2.09 to 1.68 and then rose slightly to 1.88 in 2019 and further to 2.06 in 2020. Following the increase, it lost its momentum in 2021- falling to 1.65. Throughout the years, however, the company managed to stay ahead of the industry average the whole time, only lagging behind in 2021.

Looking closely into the factors affecting the change in ratio each year, we see that, during the year 2018, Searle saw a significant increase in both inventories and trade receivables which contributed heavily to a 31.6% rise in its current assets. Its trade payables rose by around 50% along with a massive 109% rise in the short-term borrowings, which led to a 53.6% rise in current liabilities. The overall result is a fall in the current ratio of 19.6% during the year since the increase in current liabilities is noticeably bigger than that in current assets.

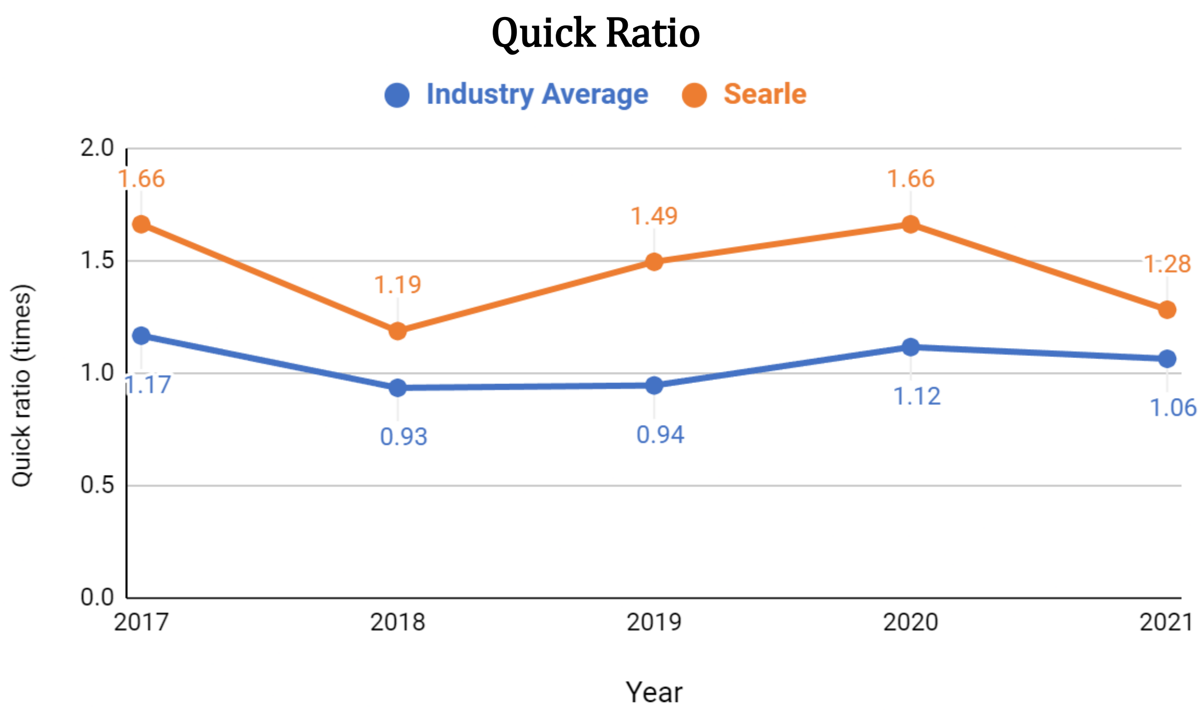
The current ratio for Searle rose slightly in 2019. The increase in trade receivables as well as the loans and receivables were the contributing factors to the 48.8% rise in current assets. In addition, there was growth in tax refunds from the government and other receivables. The rise in current liabilities was about 32.9%. The short-term borrowings saw yet another sharp increase along with 2 times increase in the unpaid dividends. Since the percentage change in current liabilities is less than the percentage change in current assets, it is apparent that the current ratio rises overall.

The ratio continued to rise as current liabilities rose by roughly 12% in 2020 and current assets rose by 22.7%. Due to a relatively smaller growth mainly in short-term borrowing compared to an increase in inventory, trade receivables, and other receivables among others, Searle managed to increase its current ratio over the past two years.

However, in 2021, Searle lost momentum and saw its current ratio slip to 1.65 owing to a 54.3% rise in the current liabilities mainly brought about by increases in trade payables and short-term borrowings. Its current assets increased by 23.6%, which compared to the change in current liabilities led to a decline in the ratio.

Searle continued to outperform the industry over the five-year period while the industry maintained its current ratio between 1.84 and 1.64 throughout these years, mostly being at par with Searle. However, it appears that over these years, both Searle and the industry have followed a similar trajectory. Despite the fall in Searle’s current ratio in 2021 along with the same for Abbott, the industry average managed to rise mainly due to the increase in the current ratio for Otsuka.

The ratio decreased in 2019 as a result of the combined impact of competitors' declining current ratios. That year, the interest rate rose from 6.5% to 13.25%, causing liquidity problems and an increase in short-term borrowing from different banks. Additionally, because the majority of raw materials and some finished goods in Pakistan's pharmaceutical industry are imported, the devaluation of the currency put strain on companies' operating capital. As the businesses effectively improved their cash inflow and decreased their short-term liabilities over the course of the following two years, the industry average gradually rose, apart from the decline in Searle’s ratio in 2021.



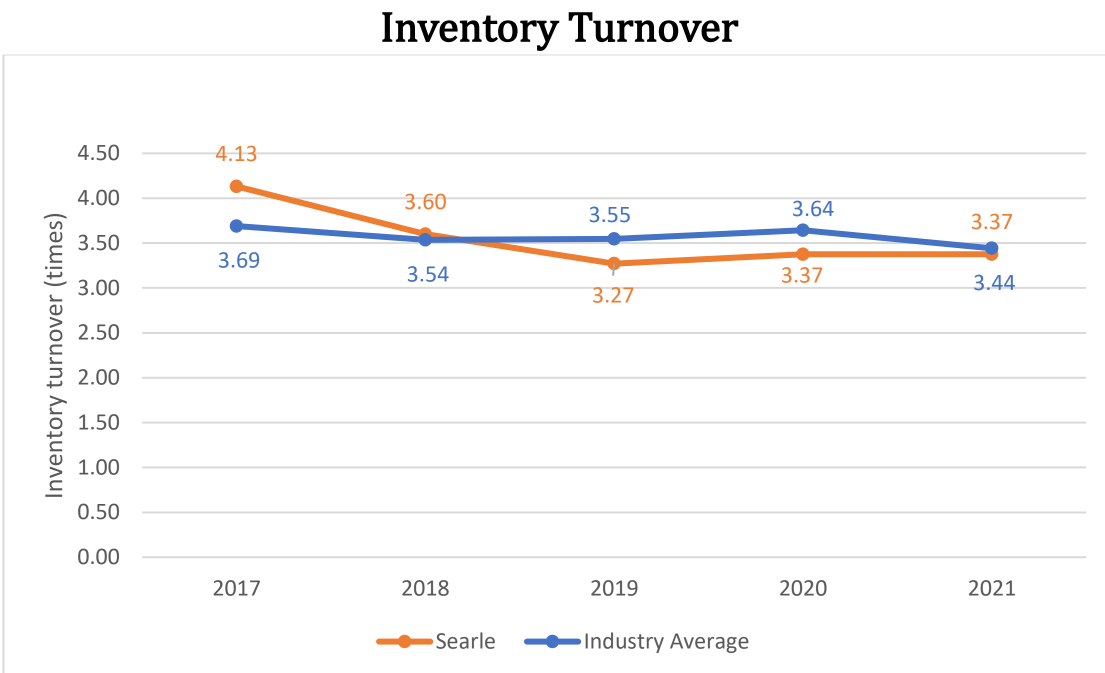
Quick ratio or acid test ratio is calculated by dividing current assets less inventory by current liabilities. It is a liquidity ratio that indicates a company's short-term liquidity position and measures a company's ability to meet its short-term debts with its liquid assets excluding inventory.

Searle's quick ratio fluctuated throughout the years 2017 to 2021, from 1.66 in 2017 to 1.28 in 2021. In 2018, the ratio briefly declined by 28.3% despite the "quick assets" (i.e., current assets - inventories) rising by 17.1%, the reason for the decline was that its current liabilities rose by around 53%.

Similarly, in 2019, the ratio managed to make a recovery and rose by 25.2%. Trade receivables, loans, other receivables, and short-term deposits all increased significantly. The ratio drastically increased as a result of the increase in current liabilities of 32.6% being less than the roughly 48% increase in the current assets.

The quick ratio continued to rise over the following two years eventually coming back to the 2017 level again in 2020. However, the streak broke when the quick ratio again declined in 2021 to 1.28, the second lowest for the period.

The industry maintained a steady trajectory between 0.93 and 1.17, in response to the change in Searle's ratio, the industry ratio momentarily decreased in 2018 only to rise ever so slightly in 2019. The interest rate rose from 6.5% to 13.25% in 2019, causing liquidity problems and compelling businesses to continue taking out loans from related parties, which had an effect on the industry's quick ratio. The ratio slightly increased between 2019 and 2020 as interest rates decreased from 13.25% to 7%, easing the burden on firms, declining by a little bit in 2021.

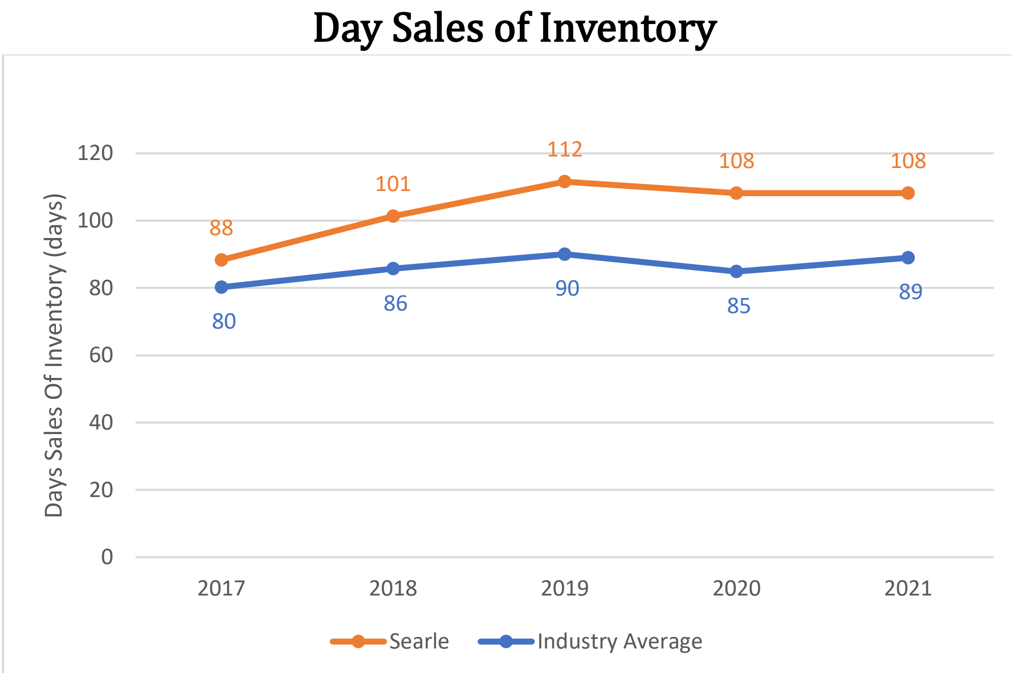


Inventory turnover is a measure of efficiency that indicates how often a company sells its inventory. A high value for inventory turnover may indicate a company's profitability is high, while a low value may indicate a company's liquidity is low. This may be due to planned or unplanned overstocking.

Searle had an inventory turnover of 4.13 times in 2017. This value fell to 3.60 in 2018 but then declined further to 3.27 in 2019. The ratio rose slightly to 3.37 in 2020 and remained stable at the same value of 3.37 in 2021.

Overall, Searle saw a decrease in its inventory turnover from 4.13 to 3.27 during the financial years (2017-2021), making a recovery towards the end. This indicates that the company was not efficient in managing its inventory over the years. The main reason behind this is that the increase in inventory of 223.53% was not able to generate enough revenue. The increase in revenue generated was just 122%, indicating that Searle should do better forecasting. However, throughout the years, the company started at a point well above the industry average but fell below that in 2019, only to come back to par in 2020 and 2021.

The sharpest decline in the Searle inventory turnover ratio was observed in the financial year 2018 from 4.13 to 3.60. This effect was due to little change in the cost of goods sold (COGS) and a significant rise of 17.4% in the level of inventory. In 2019, Searle made a light recovery from 3.27 to 3.37. the ratio remained the same in 2021 indicating that the COGS and average inventory changed by relatively the same percentage as in 2020.



Days of Inventory Sales, or DSI for short, is an asset management metric that calculates the average number of days it takes a company to turn inventory into sales. Calculated by dividing 365 days by the inventory turnover rate. This allows companies to determine how efficiently their warehousing and distribution departments are functioning, and the calculation fully reflects the integration of the departments. A lower DSI indicates that managers are doing a better job of forecasting demand, and companies prefer shorter inventory holding times.

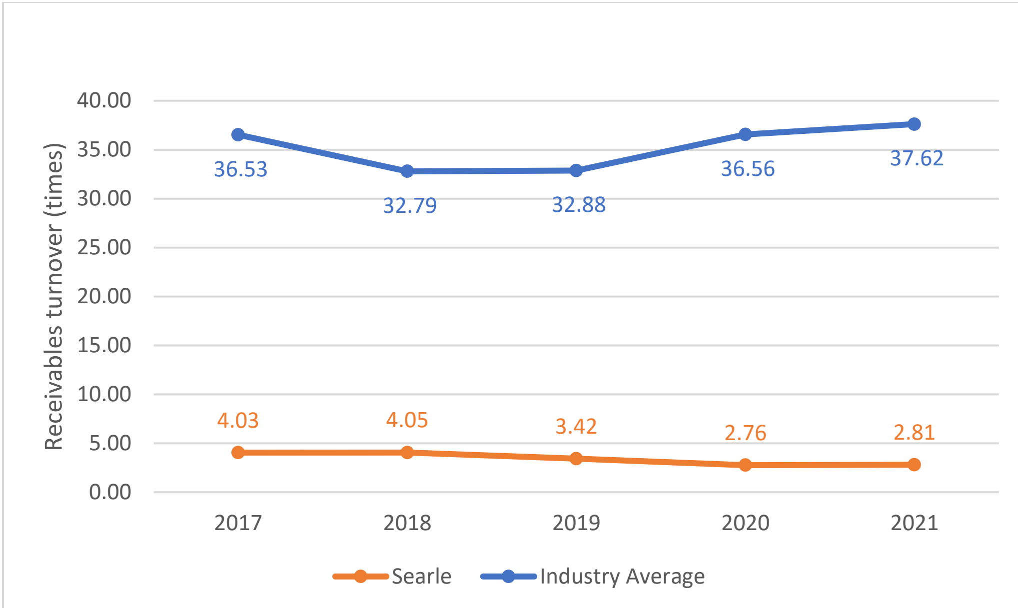
Searle had DSI values of 88 days in 2017. This then rose to 101 days in 2018 but then rose to 112 days in 2019. There was a negligible change to 108 days in 2020 which was then sustained for 2021 as well.

Owing to the overall decrease in the inventory turnover ratio of Searle throughout the 5 years, the Day Sales of Inventory only increased across the 5 years of our analysis.

The Days sales inventory of Searle was above the industry average throughout. The gap was highest in 2019 which was due to the changes in inventory turnover for both Searle and the industry. An increase in Days Sales Inventory, such that in FY 2019 can be attributed to either a decrease in the cost of production or an increase in the average inventories.

The overall performance of Searle was worse than that of its competitors. It stayed above the industry average throughout these years which meant that Searle, on average, had a harder time turning their inventory into sales. The industry average remained constant throughout the years without major fluctuations in the range of 65 to 70 days.

Receivable Turnover



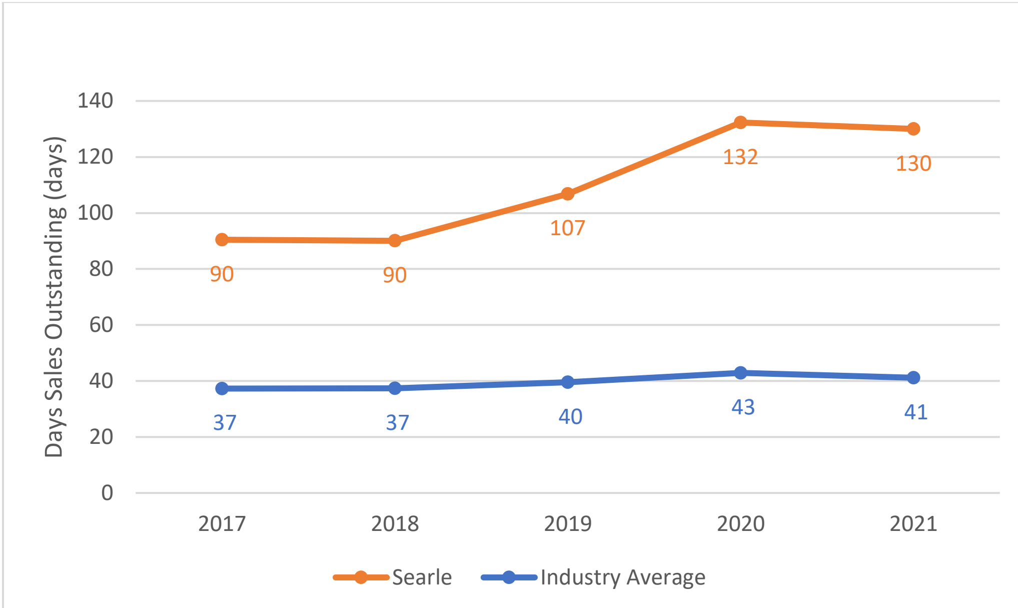
The receivable turnover ratio is an accounting metric used to assess a company`s ability to recover receivables or money owed by customers. The overall ratio for Searle showed a decreasing trend. From FY 2017-2021, the ratio changed from 4.05 to 2.76. This shows the company's inefficiency, as not only is there an overall decrease but there is a massive gap between the industry average and Searle's ratio.

The turnover initially rose slightly from 4.03 to 4.05 in FY 2018 as the revenue grew by 21.33% and average receivables increased by 20.79%. In FY 2019, a decrease in the ratio is observed from 4.05 to 3.42. This was due to an unequal rise in revenue and trade receivables. Revenue rose by 11.85% whereas receivables rose by 42.43%.

In FY 2021, the ratio increased to 2.81. The revenue increased only by 13.36% whereas the average receivables rose by 34%. This is mainly due to an increase in revenue which resulted in an automatic increase in receivables. This growth in sales and profit was derived from the high-margin products of pharma and exemptions on the duties of nutrition and medical disposables due to the global pandemic.

On the other hand, the industry averages were way higher than Searle's turnover throughout all the financial years. The increasing trend in the ratio is mainly due to the growth of Sanofi Aventis in 2021 from 22.9 to 31.9 times. Whereas the reason behind such a massive gap between the industry and Searle is also the performance of Sanofi-Aventis, as it had a great rise in revenue compared to the receivables. Searle lacks the ability to recover its receivables while other competitors are much more efficient.

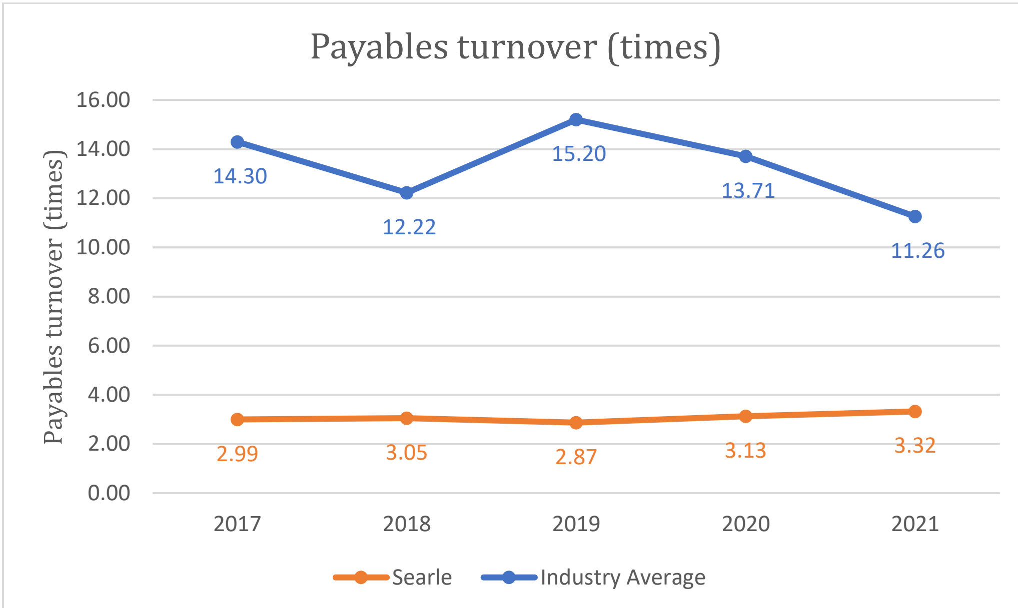
Day Sales Outstanding

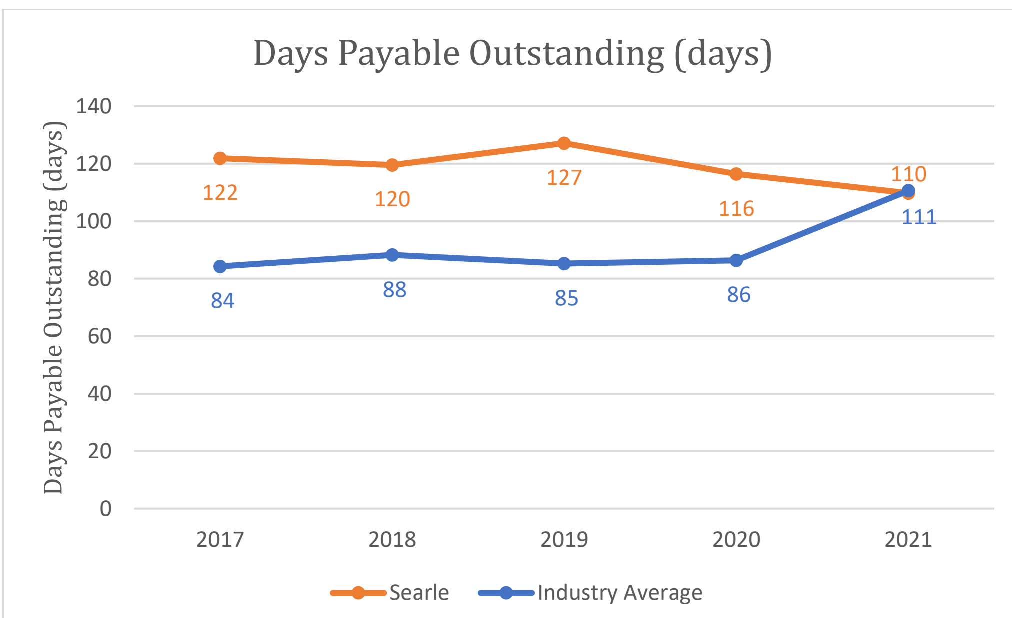


The overall nominal decrease in the Receivables turnover ratio resulted in an increase in the Days sales outstanding from 90 days to 130 days. Day sales outstanding is calculated by dividing credit sales by average trade receivables and it tells us the average number of days when receivables are left outstanding before their collection, or by dividing days (365) by the receivable turnover.

The Days Sales Outstanding of Searle is much higher than the industry average. This is one of the measures where outperforming the industry is not necessarily the best thing for the company as this means that Searle is not collecting payments on time for their sales. A high DSO number can also forecast a deficit of working capital. In contrast, a low DSO for the industry means that fewer days are elapsing between when a sale is made and when the payment is collected, resulting in a high cash conversion cycle.

Payable Turnover and Day Payables Outstanding





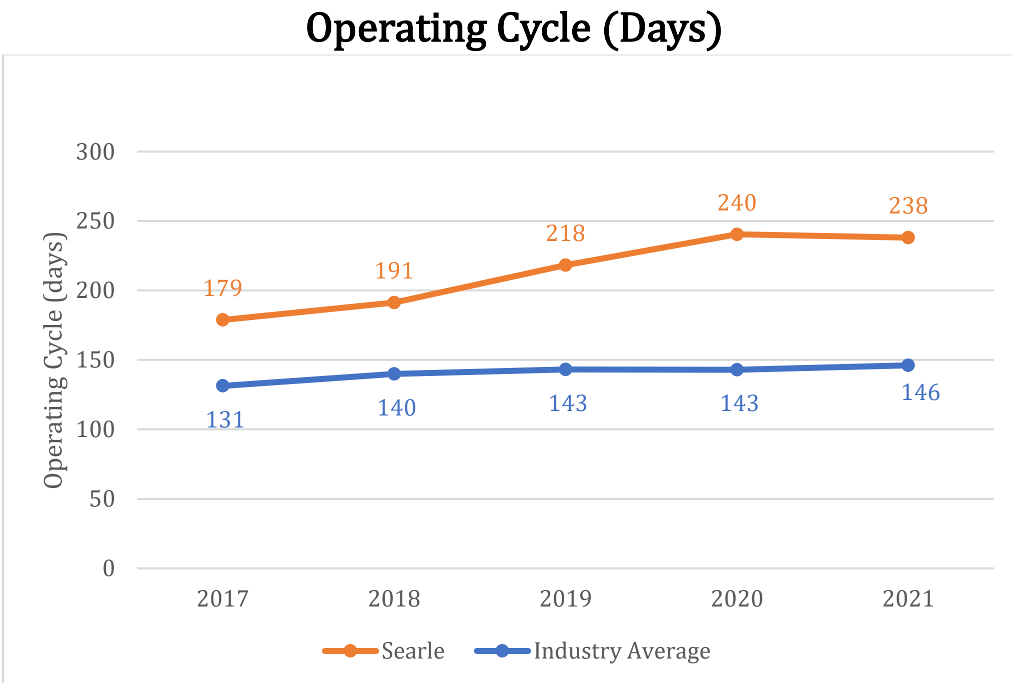
The payables turnover ratio calculates how frequently a firm pays all of its creditors in a given year. Over the financial period of 2017-2021, the payables turnover for Searle increased from 2.99 to 3.32, The payables turnover automatically resulted in a decrease in Days Payable Outstanding from 122 to 110 days. Whereas the industry payables turnover worked in the opposite direction and had an overall decrease from 14.30 in 2017 to 11.26 in 2021.

From FY 2018-2019, Searle faced the greatest decline in payables turnover from 3.05 to 2.87 and the greatest increase in DPO. In this year, Sales increased by 11.85% whereas average payables increased by 14.53% which is why we observe a decline. Although credit purchases also rose by 4.89%, it still was not enough to prevent the decreased payable turnover ratio. As the company is delaying payments to its creditors, it has cash available for other operations, however, this may hamper its relationship with its suppliers. As mentioned in the director's report, this was the toughest year for the business due to the worst economic crises prevailing in the country. The business's costs were severely hampered by the sharp currency devaluation because it depends heavily on imports.

From FY2019 onwards, the Payables turnover improved consistently as Searle had higher growth in sales compared to last year. This improved Searle's liquidity and profitability and increased its ability to pay off creditors. Hence, payables turnover finished strongly at 3.32 times in 2021 as gross profit as a percentage of sales increased to 46.9%.

The industry ratio fluctuates throughout these financial years with an overall decreasing trend, which indicates that Searle's competitors have been facing difficulty in efficiently and consistently paying their creditors, although the decreasing trend is a good sign. The slight change noticed in FY2019 from 15.20 to 13.71 times is due to Abbott Laboratories' drastic changes. However, an increase in Days payables is observed from FY 2020-2021 in the industry whereas Searle worked in the opposite direction. This is because, in the second part of the just-finished fiscal year On June 30, 2020, COVID-19 became a problem, causing unheard-of shocks to the economy of Pakistan and the world which affected Otsuka Pakistan limited the most and their payables turnover dropped from 4 to 2.9(times). Nevertheless, while encountering significant difficulties caused by the suspension of commercial operations as a result of the nation's lockdown, the company was able to maintain its sales growth and profitability by taking prompt action to deal with the dire circumstances.

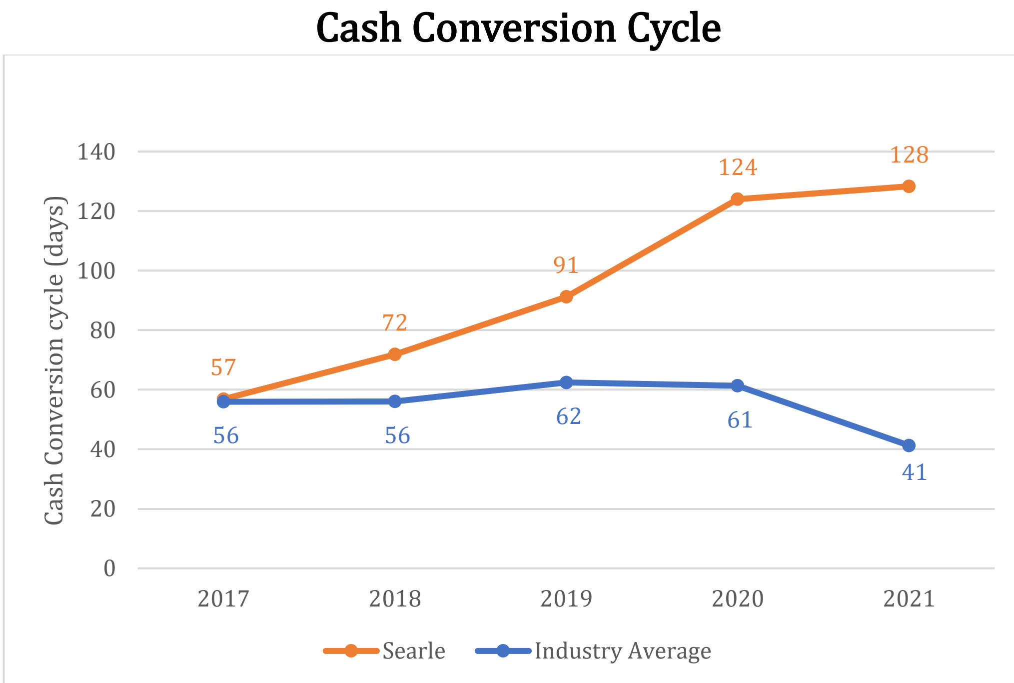
The day payables outstanding show the average number of days it takes for the firm to pay back its creditors. As the graph shows Searle has a higher day payable outstanding throughout than its competitors. This tells us that on average, it is taking longer to pay back its creditors due to unfavorable economic conditions which significantly increased its average payables.



The length of time it takes for money to be spent on operations and subsequently come back into the company's cash account is known as the operational cycle. The operating cycle is the sum of the following: the days' sales in inventory (365 days/inventory turnover ratio), plus the average collection period (365 days/accounts receivable turnover ratio). It is ideal to have a short operating cycle as this creates a healthy cash flow for the company. A longer cycle indicates that the company might have to borrow to maintain that which will create further problems in terms of costs.

Searle had an operating cycle of 179 days in 2017. This increased to 191 in 2018 but then rose significantly to 218 days in 2019. In the period 2018-2020, it showed a sharp increase reaching its peak of 240 at the start of 2020. From then, the ratio declined to the value of 238 in 2021. On the other hand, the industry average remained relatively constant throughout these financial years, between 131 and 146 days.

From FY2017 through FY2021, Searle’s operating cycle stayed greater than the industry standard. This implies that it takes longer to sell its products and get paid by customers. As observed in our analysis of Day Sales of Inventory, Searle has a longer DSI than the average, the issue also lies with the Day Sales Outstanding for the company which is much higher than the industry. The reasons for both of those have been explained in detail in the previous ratios. It can be inferred that Searle needs to improve its contracts with its receivables for the cash collection mechanism and obtain prompt payments so that it can lower its operating cycle which is currently poorer than the industry.



Now let's analyze the factors and potential causes behind the changes in Searle's cash conversion cycle. Searle's increase in the cash conversion cycle over this period suggests that the company faced difficulties in effectively managing its inventory. Possible causes could include overstocking, slow-moving inventory, inaccurate demand forecasting, or inadequate inventory control processes. These factors can lead to a longer inventory holding period, delaying the conversion of inventory investments into cash.

Another factor contributing to the longer cash conversion cycle is accounts receivable collection issues. The extended cycle can be attributed to challenges in collecting payments from customers. Factors such as extended credit terms, delayed customer payments, high levels of accounts receivable, or ineffective credit and collection procedures can all contribute to a delay in receiving cash from sales.

Additionally, the slight increase in Searle's cash conversion cycle in 2021 suggests that the company encountered some hurdles in managing its working capital components. This could include factors such as changes in customer behavior or preferences, supply chain disruptions, macroeconomic conditions impacting demand, or operational inefficiencies affecting inventory turnover and accounts receivable collection.

When comparing Searle's cash conversion cycle to its competitors, the similarities between Searle's cash conversion cycle and the average cash conversion cycle of its competitors indicate that, on average, Searle's performance in converting investments into cash aligns with industry peers. However, without specific information about the competitors or their industry, it is challenging to pinpoint the exact reasons behind their respective cash conversion cycles.

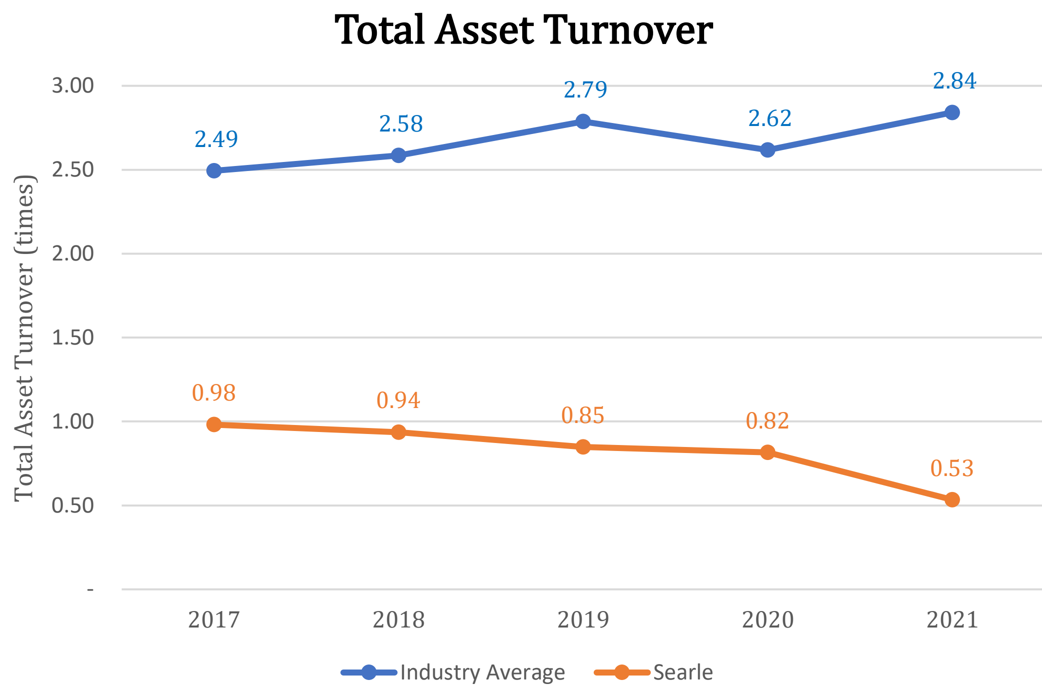
Looking at individual companies, Searle's cash conversion cycle increased from 57 days in 2017 to 128 days in 2021, indicating a lengthening cash conversion process. On the other hand, Otsuka had a higher cash conversion cycle compared to Searle, ranging from 68 days to 105 days during the period of 2017-2021. This longer cash conversion process could be influenced by factors such as complex supply chains, longer production cycles, or industry-specific dynamics. Analyzing Otsuka's inventory management practices, credit policies, and payment terms with customers and suppliers could provide insights into the reasons behind its higher cash conversion cycle.

GlaxoSmithKline, in contrast, displayed a relatively shorter cash conversion cycle than Searle, ranging from -4 days to 26 days. The negative cash conversion cycle indicates that GlaxoSmithKline had a cash inflow before paying its suppliers, reflecting an efficient cash conversion process. This shorter cycle can be attributed to effective inventory management, timely collections from customers, or favorable payment terms with suppliers.

Sanofi Aventis also maintained a shorter cash conversion cycle than Searle, ranging from -5 days to 35 days, suggesting a similar cash inflow situation as GlaxoSmithKline. The efficiency in Sanofi Aventis's cash conversion process may be a result of streamlined inventory management, prompt collections, or favorable payment terms with suppliers.

Abbott exhibited a varied cash conversion cycle, ranging from -18 days to 106 days. The negative cycle indicates a more efficient cash conversion process, similar to GlaxoSmithKline and Sanofi Aventis. However, the higher positive cycle in some years indicates a longer cash conversion process for Abbott, which could be due to factors like changes in operational efficiency, inventory levels, or payment cycles.

Based on these comparisons, we can observe the following trends: Searle experienced an increase in the cash conversion cycle over the years, indicating a longer cash conversion process. GlaxoSmithKline, Sanofi Aventis, and Abbott displayed shorter cash conversion cycles compared to Searle, indicating more efficient cash conversion processes. Otsuka had a generally higher cash conversion cycle than Searle, suggesting a longer cash conversion process.



In the analyzed period, Searle's total turnover of assets (TAT) exhibited a gradual decrease from 0.98 in 2017 to 0.82 in 2021, indicating a decline in the efficiency of asset utilization in generating sales revenue. Factors such as underutilization of assets, inefficient production processes, or inadequate sales volumes relative to asset levels may have contributed to this decrease. Furthermore, there was a significant drop in Searle's TAT from 2020 to 2021, which can be attributed to a decline in sales or revenue, potentially influenced by changes in market demand, competitive pressures, or economic downturns.

Comparing Searle's TAT to its competitors, it consistently remained lower than the average TAT of its industry peers throughout the analyzed period. This indicates that Searle generated less revenue relative to its asset base compared to its competitors.

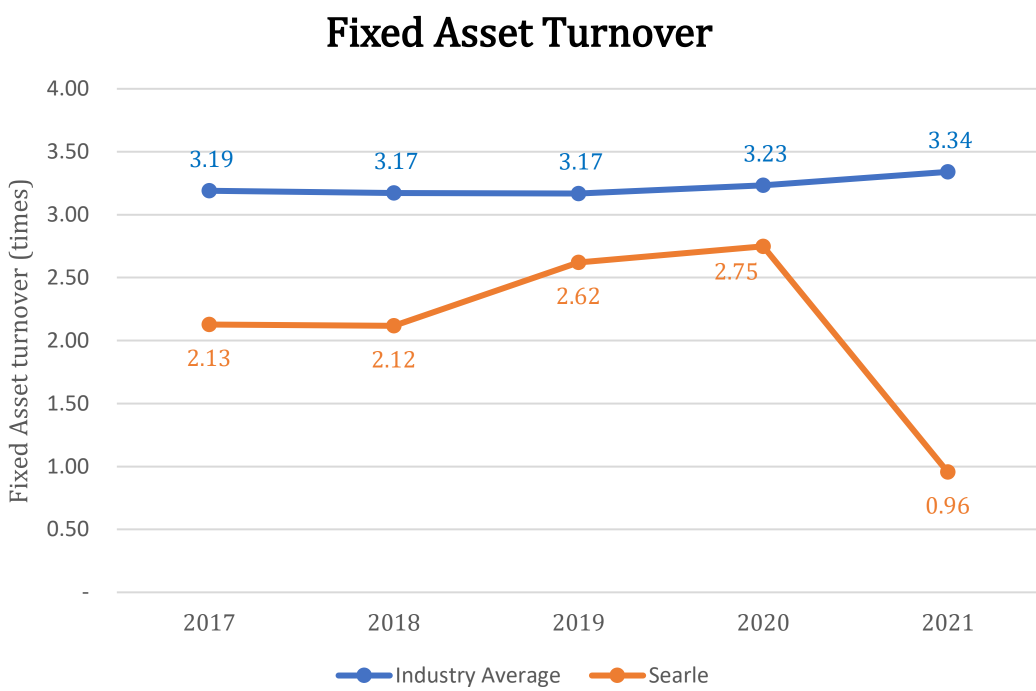
When looking at individual competitors, Otsuka demonstrated a consistent increase in TAT from 2017 to 2021, indicating an improved ability to generate sales revenue from its total asset base. This could be attributed to strategies focused on optimizing operational efficiency, streamlining processes, or introducing successful product innovations.

GlaxoSmithKline maintained a relatively stable TAT, suggesting consistent asset utilization efficiency in generating sales. Strong brand presence, a diversified product portfolio, or effective marketing strategies may have contributed to its stable TAT.

Sanofi Aventis exhibited exceptionally high TAT values throughout the analyzed period, indicating a remarkable ability to generate sales from a relatively smaller asset base. Efficient supply chain management, effective inventory control, or streamlined production processes may have played a role in achieving such high asset turnover.

Abbott demonstrated a relatively steady TAT comparable to or slightly better than Searle's performance, suggesting similar or slightly improved asset utilization. Abbott's focus on research and development, strong market presence, or effective sales and distribution strategies may have contributed to its stable TAT.

In summary, Otsuka and GlaxoSmithKline outperformed Searle in terms of asset turnover, while Sanofi Aventis demonstrated exceptional asset utilization efficiency. Abbott's performance was comparable to or slightly better than Searle's.



The fixed asset turnover rate shows how effective a firm is in using its fixed assets to generate sales. The ratio gives the number of sales that each fixed asset generates for the firm, hence, a higher ratio is preferred.

Searle's fixed asset turnover ratio depicted an overall declining trend. From 2.13 in 2017, it rose to 0.262 in 2019 after a negligible fall in 2018 to 2.12. It further increased to 2.75 but then fell sharply to its lowest value for the 5-year period in 2021, at 0.96.

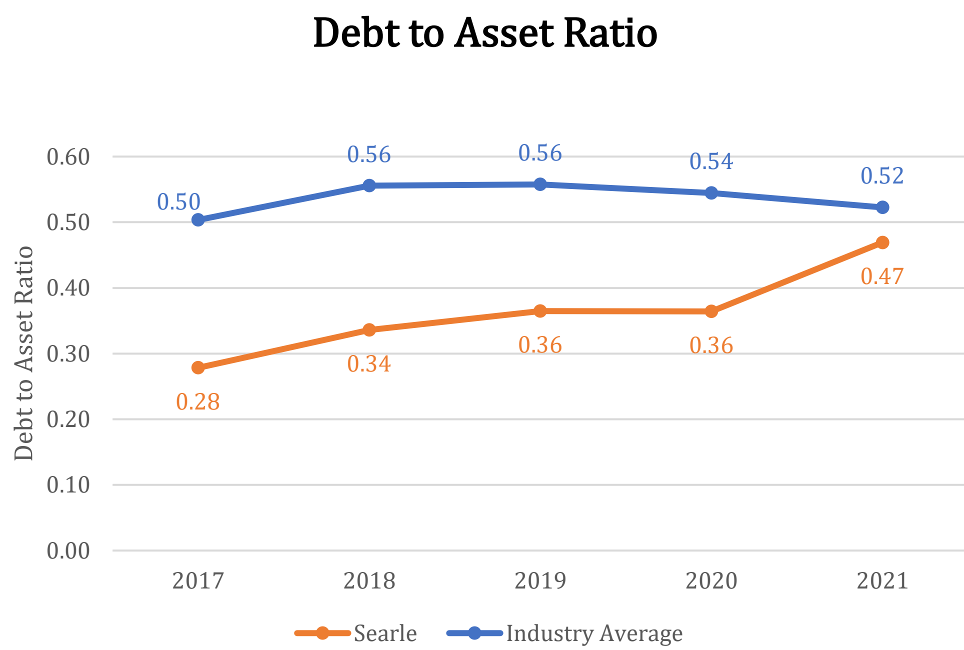
In 2018, Searle's sales only grew by 21.3% from 2017 due to the economic conditions in the country including the devaluation of the currency. As their business is mainly based on imports, costs increased and therefore the growth in sales was lower than expected. Moreover, their total fixed assets increased by 21.9%. In 2018, the ratio fell slightly as the change in sales and fixed assets was relatively the same, with the fixed assets rising just a tiny bit more than the sales.

In 2019, sales increased by 11.9%, despite tough economic conditions. However, total fixed assets decreased by 9% because long-term loans and advances fell by 99.98%. Therefore, the fixed asset turnover increased in 2019 by 23.58% year-on-year.

2020 was the highest fixed asset turnover reached in the 5-year period as revenue increased by 13%. This was because the company added a new portfolio and saw growth in existing businesses as well. While fixed assets also increased by 8%, the larger increase in sales contributed to the high fixed asset turnover.

In 2021, Searle's sales increased by 28%. However, the fixed assets increased by a mammoth 268%. The overall increase in fixed assets was brought about by a 98% rise in property, plant, and equipment and a staggering 465.5% increase in intangible assets. Since the increase in fixed assets was around 9.6 times larger than that in sales, the ratio declined sharply to 0.96, recording a fall of 65%.

The industry average of fixed asset turnover ratio is stable throughout the five-year period, depicting an overall increasing trend. Searle's ratio lies below the industry average throughout the period. In 2020, the gap is at its lowest but increases again exponentially in 2021. That means that Searle is less effective in generating sales from its fixed assets than its competitors throughout, although it became more efficient over time, Searle completely lost its progress in 2021 as its ratio went to its lowest point for the 5-year period when the industry's ratio was at its peak.



The Debt Ratio or the Financial Leverage Ratio tells us what percentage of a company's total assets are financed through debt. A relatively high value of the debt ratio tells us that a company is leveraged and is considered high risk. A relatively lower debt ratio means that the company is using internally generated funds for financing needs but may signal an inability to acquire debt.

Searle began with a debt ratio of 0.28 in 2017 which then rises to 0.34 in 2018. It then increases slightly to 0.36 in 2019 and remains the same in 2020. There is a relatively sharp change from 2020 to 2021 as it rises to 0.47

The industry average debt ratio started from 0.50 in 2017, and moved to 0.56 in 2018. It remained at the same value in 2019 after which it declined slightly 0.54 in 2020. It fell further to 0.52 in 2021 which brought it roughly to the same place where it was in 2017.

In 2017, Searle's debt was around 3.59 times smaller than its total assets. More than half of the current liability is trade payables and short-term borrowings. The company had negligible non-current liabilities in contrast to the current liabilities up until 2020, after which they surged drastically.

In 2018, the debt ratio went up slightly which is mainly attributed to changes in both current assets and non-current assets. There is very little change in both current assets and total debt. Total assets only rise by 27% while the liabilities rose by 53%, consequently, the debt ratio went up to 0.34, an increase of 21% over the previous year.

In 2019, the debt ratio of Searle only rose slightly to 0.34 times. The change arises mostly due to changes in current assets on the total assets side. The current assets increased by almost 49%, apart from the increase in inventories, trade receivables, and short-term prepayments. The rise in the ratio is constituted by a solid increase in loans and receivables.

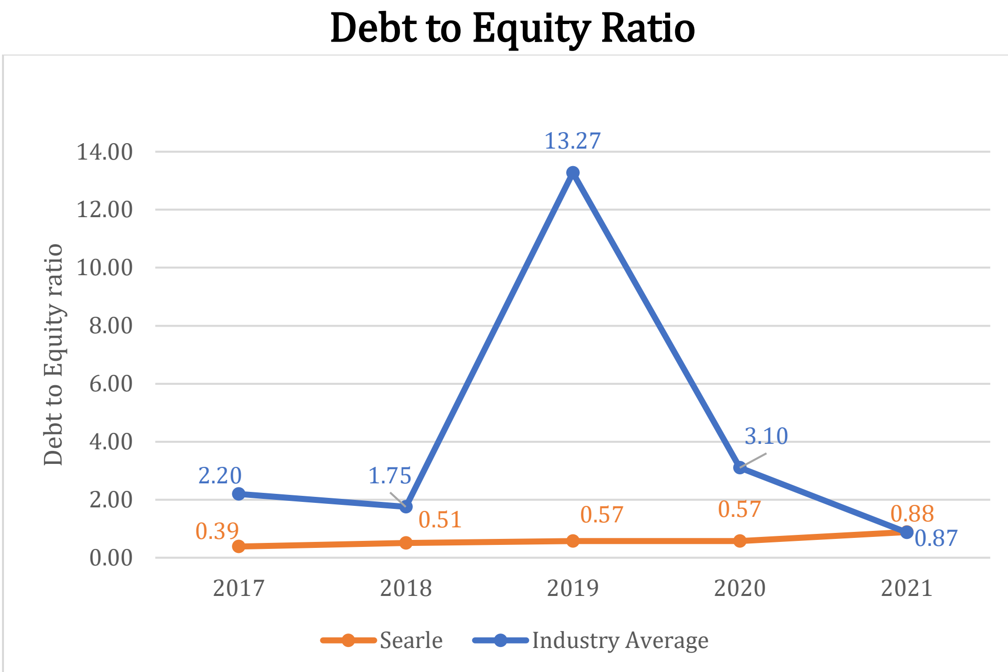
As for the liabilities, they increase by 33% compared to the 23% increase in total assets. The amount owed to creditors rises due to payables owed to relevant parties. Since the debt rises by a proportion greater than assets, the debt ratio rises so much to 0.36.

In 2020, the debt ratio is the same as last year, which essentially means that the change in total assets and total liabilities was the same, as both rose by almost 17% with only minor differences.

For Searle in 2021, the total assets almost doubled by a 95% increase which is attributed to a change in non-current assets which was more than 300%. Interestingly, most of the change in non-current assets comes from intangible assets. Current assets changed by 23.6%. Similarly, the company saw a 147.8% increase in non-current liabilities coupled with the 152.3% increase in current liabilities saw the ratio increase significantly. The change year-on-year is 30.6%

Throughout our 5 years of analysis 2017-2021, the debt ratio of Searle was less than the industry average from 2017 to 2020 but is came very close to it in 2021. The gap between the two is at its peak in 2017 after which it falls to its lowest in 2021. The two graphs follow the same trend of rises and falls in the 5 years.

In conclusion, Searle shows underperformance compared to the industry throughout 2017 to 2021 but the gap decreases in the later years, which shows that the company is improving its debt management.



The debt-equity ratio is a measure of the relative contribution of the creditors and shareholders or owners in the capital employed in business. A higher debt-equity ratio suggests more risk, while a particularly low one may indicate that a business is not taking advantage of debt financing to expand.

Searle's Debt-Equity ratio remained lower than the industry average over the 5-year period. It showed an overall increasing trend, from 0.39 in 2017 to 0.88 in 2021, which was the peak of the ratio for Searle.

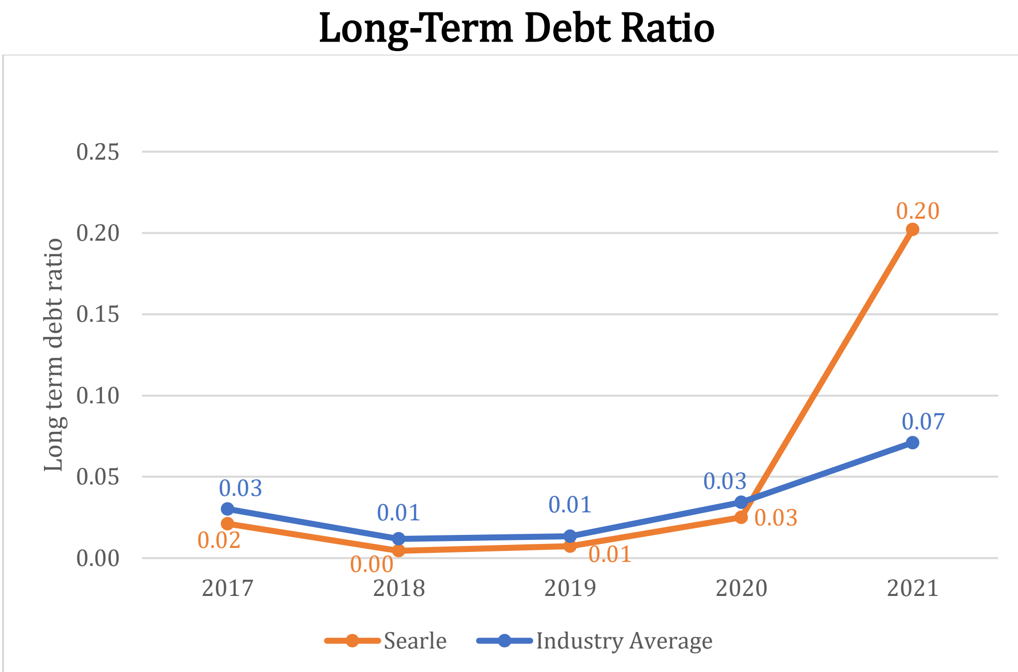
From 2017, Searle's total liabilities increased by 53% while total shareholder's equity increased by 16%, therefore, the debt-equity ratio slightly increased from 0.39 to 0.51. The main reason for this low ratio is that Searle's non-current liabilities declined by 72% in 2018. This means that it does not rely on debt financing but mainly on shareholders' equity. However, these short-term debts cannot be used for expansion, and as mentioned in the director's report, the company is looking to tap into new opportunities and add more products to its portfolio. Therefore, it is expected to rely on shareholders' equity to finance its future growth.

From 2018 to 2019, the ratio increased to 0.57. This was because total liabilities increased by 33%. Since the total equity rose by only 18%, the reason for the increase in the ratio is said to be due to the difference in the growth of both liabilities and equity.

In 2020, the debt-to-equity ratio was the same as last year at 0.57. This was because its total liabilities increased by 17%; majorly caused by an increase in short-term borrowing and long-term borrowing. Again, the ratio remained constant since growth in total equity was also relatively the same at 18%

In 2021, Searle saw a massive 147% increase in its non-current liabilities, which can be attributed to a possible loan under the State Bank of Pakistan's Refinance Scheme 'Payment of Wages and Salaries to the Workers and Employees of Business Concerns' during the Covid-19 pandemic. Compared to the 152% change in liabilities, the total equity only rose by 63% which led to a 54% increase in the debt-equity ratio year-on-year.

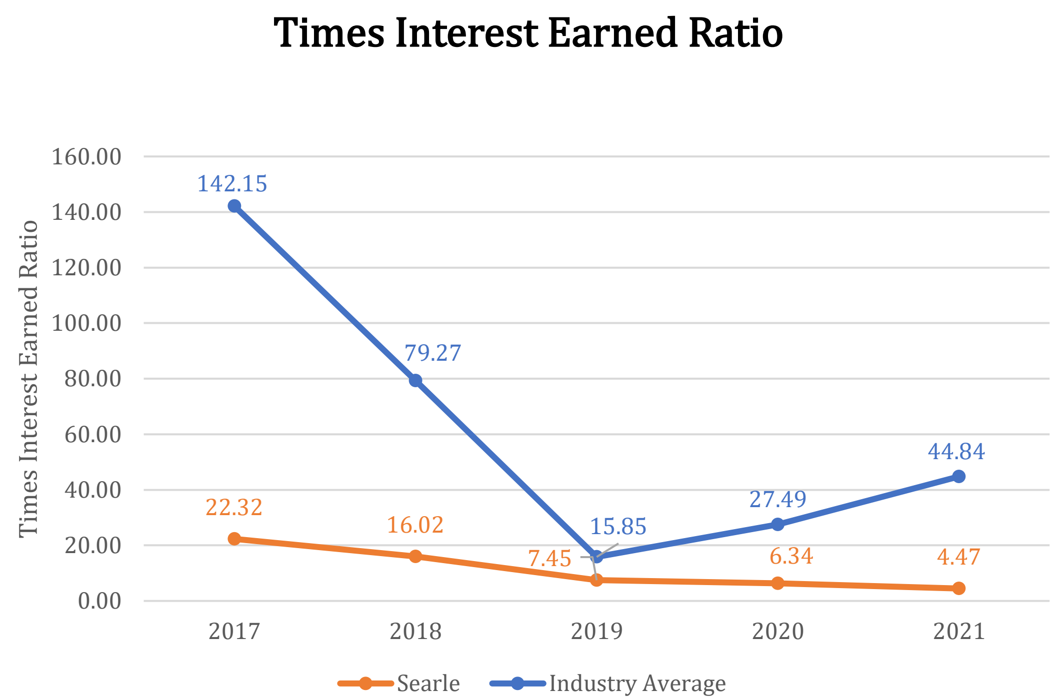
While the industry average curve remained above IBL's curve for the entire period, it saw a very steep rise from 2018 to 2019, after which it fell back in 2020. This suggests that Searle's competitors operate at a higher debt-to-equity ratio than Searle itself. The major contributor to the sharp rise of the industry average in 2019 was Otsuka Pakistan Limited. The company suffered due to the abnormal depreciation in the Pak Rupee that not only increased their cost of production but also gave them a total impact of exchange loss of Rs. 193.7 million on their offshore loans and imports. Moreover, there was a major surge in the cost of utilities which completely wiped off their operating profits for the year. Due to this, the company had large accumulated losses which caused a 219% decrease in shareholders' equity, which obviously significantly impacted the company's debt-to-equity ratio. Due to this major rise in Otsuka Pakistan Limited's debt-to-equity ratio, the industry average rose sharply.



The ratio of long-term debt to total assets measures how much of a company's assets are financed by long-term debt, which includes loans and other debt commitments with terms longer than one year. This ratio gives a broad indication of a company's long-term financial position, including its capacity to pay off outstanding loans.

As observed from the graph Searle's long-term debt ratio is quite low for the years 2017-2020, even reducing to 0.00 in 2018. This is because the company had few loans or other debts which had obligations lasting more than one year. Searle had short-term debts, but the company's assets were mainly financed by shareholders' equity. However, in 2021, the company saw a significant rise in its long-term obligations which rose by a staggering 292.3%, due to a loan via Islamic financing through the State Bank of Pakistan's Refinance Scheme, "Payment of Wages and Salaries to the Workers and Employees of Business Concerns." It contains a 5% annual markup and must be paid back starting in January 2021 in 8 equal quarterly installments. The State Bank of Pakistan issued this loan in order to assist businesses in continuing to pay wages and salaries to their employees and workers in the wake of the coronavirus (COVID-19) outbreak. Due to this, the long-term debt ratio increased to 0.20.

The graph also shows that the industry trend is very different. Searle's long-term debt ratio lies along the same lines as the industry average curve. However, companies like Otsuka Pakistan Limited and Sanofi Aventis do not have significant long-term debts. The curve shows a steep rise from 2020 to 2021 which was characterized by a major increase in Searle's long-term debt ratio due to the company obtaining the State Bank of Pakistan's Refinance Scheme, "Payment of Wages and Salaries to the Workers and Employees of Business Concerns.



The times interest earned (TIE) ratio is a measure of a company's ability to meet its debt obligations based on its current income. The formula for a company's TIE number is earnings before interest and taxes (EBIT) divided by the total interest payable on bonds and other debt. The result is a number that shows how many times a company could cover its interest charges with its pretax earnings.

The graph shows that Searle's TIE ratio is quite low as compared to the industry average from 2017 to 2021. Overall, it shows a downward trend as it falls from 22.32 in 2017 to 16.02 in 2018 and further to 7.45 in 2019. The year 2020 saw yet another decline to 6.34 followed by the same drop in 2021 to 4.47 which was its lowest value.

From 2017 to 2018, the TIE ratio for Searle fell from 22.32 to 16.02. That means that the company can now cover its interest charges 16.02 times from its pre-tax earnings. This was because EBIT increased by 15.1% along with a 10% rise in finance costs. These reasons caused the TIE ratio to fall in the year 2018 by 28.3%.

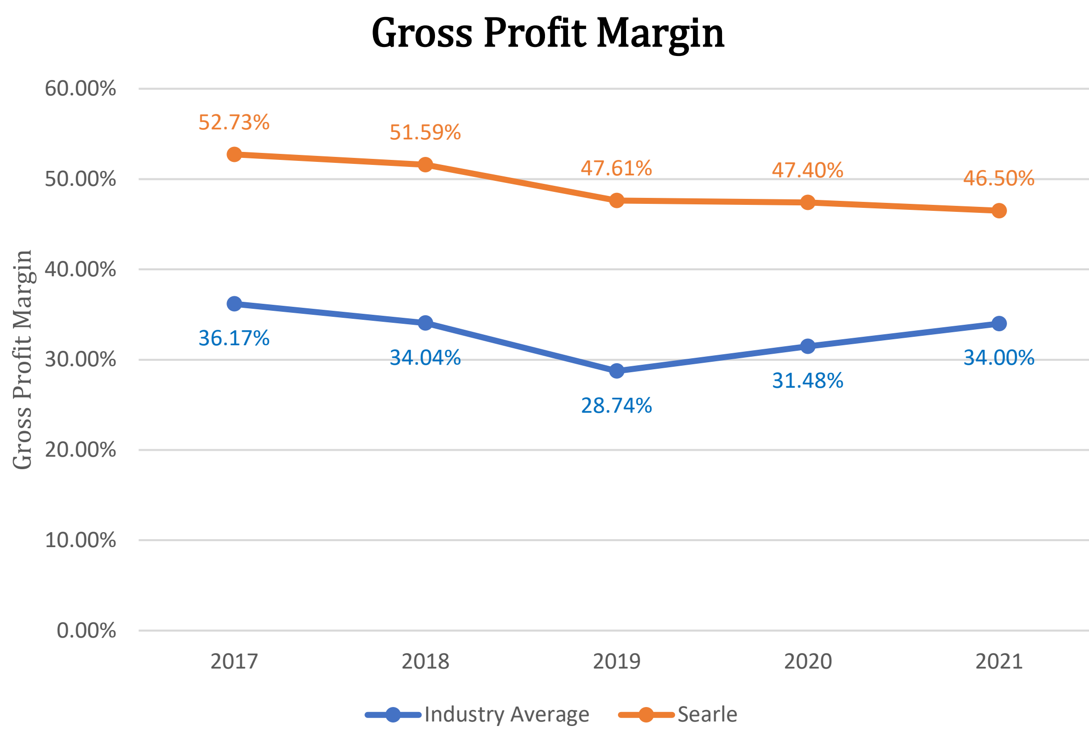
However, the steepest decline in the TIE ratio for Searle is seen from 2018 to 2019. The ratio fell from 16.02 to 7.45, a 53.5% decline year-on-year. While EBIT only fell by 5.8% in 2019, the reason for this decline in the TIE ratio was the 5.4% rise in finance costs.

After 2019, the TIE ratio fell less drastically in 2020 to reach a value of 6.34. This year, EBIT rose by 32.8%, but the TIE ratio still fell because of a whopping 95.9% increase in interest expenses. In 2019, Searle took out a lot of debt, the International Finance Corporation (IFC) provided the largest loan, which was worth $100 million to finance the development of Searle's Karachi manufacturing facility. The loan had a ten-year repayment period with a 5% interest rate per annum. Another $50 million loan was also received by Searle from the Asian

Development Bank (ADB) to finance a new research and development center in Karachi with. The loan had a 7-year repayment duration and an annual interest rate of 6%. Along with some more loans from commercial banks, a total of about $200 million in loans were secured by Searle in 2019 which were used for the development of new facilities for research and manufacturing and to help fulfill working capital needs.

In 2021, the ratio saw another decrease from 6.34 to 4.47. This was brought about by a 49.3% increase in EBIT as the company managed to get a higher revenue despite the covid pandemic, meanwhile, the finance costs also rose by another 16%.

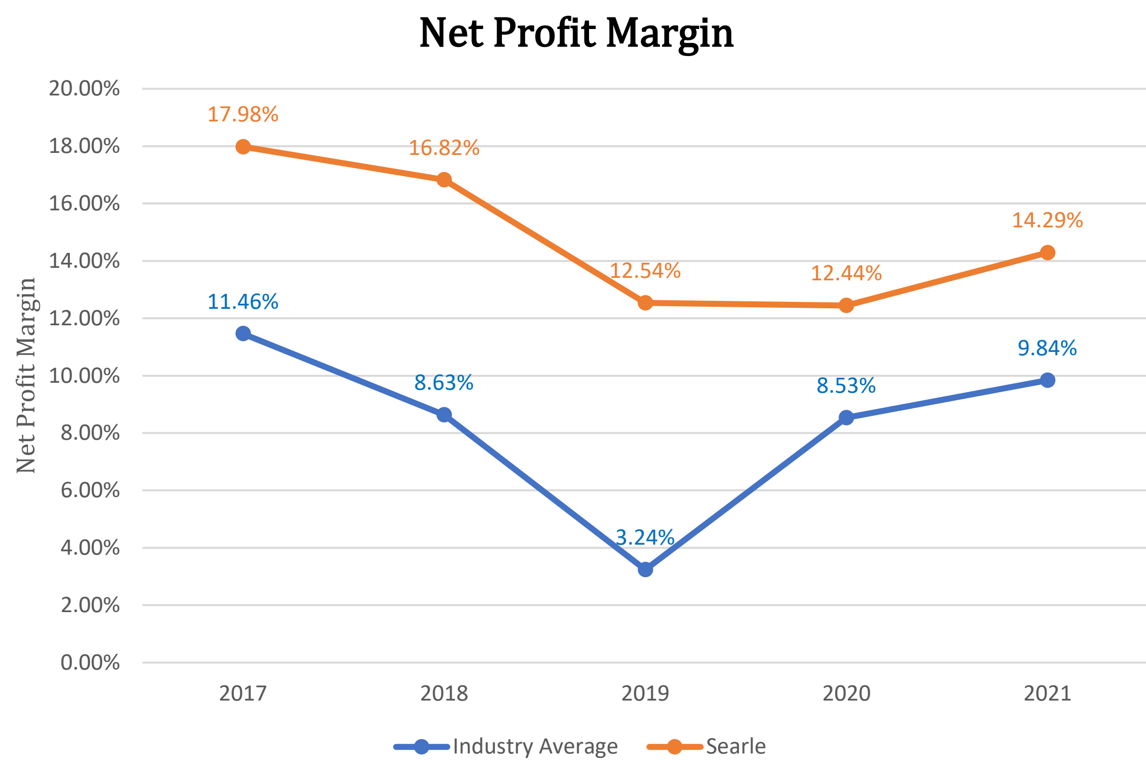
The industry average of the TIE ratio showed an overall mixed trend as it decreased from 2017 to 2019 after which it increased from 2020 to 2021. There is a sharp decline from 2017 to 2019, which is caused by the decline in the industry's individual TIE ratios during these years. However, there is a rise in the industry average TIE ratio from 2020 to 2021, which was due to a major increase in Otsuka Pakistan Limited's TIE ratio. This was because Otsuka's EBIT significantly increased, by 171%, in 2021, due to a better sales mix and cost controls employed by the company throughout the year. They also launched a new product, OTSUFLOX, which contributed to their sales growth. Moreover, Otsuka's finance costs also fell by 74%, which caused the TIE ratio to increase significantly. The reason for the decrease in finance costs was that the company did not make payments on its short-term debts during the year. Therefore, the rise in Otsuka's EBIT combined with its decrease in finance cost considerably increased its TIE ratio, which impacted the industry average and caused it to rise as well. The increase was complimented by the rise in TIE ratios of Abbott Laboratories, GlaxoSmithKline, and Sanofi-Aventis, all of which saw their respective ratios almost double till 2021 in comparison to 2019.



The gross profit margin ratio is a profitability ratio that compares the gross margin of a company to its revenue. It shows how much profit a company makes after paying off its Cost of Goods Sold (COGS). The ratio indicates the percentage of each dollar of revenue that the company retains as gross profit.

The trend of the gross profit margin is as follows, the gross profit margin has been declining over the five-year period, starting from 52.73% in 2017 and reaching 46.50% in 2021. While the overall trend is downward, there are fluctuations from year to year. For example, there is a notable drop from 2017 to 2018 (from 52.73% to 51.59%), followed by a more significant decline from 2018 to 2019 (from 51.59% to 47.61%). However, from 2019 to 2021, the decline seems to have stabilized, with the gross profit margin remaining relatively consistent between 47.40% and 46.50%.

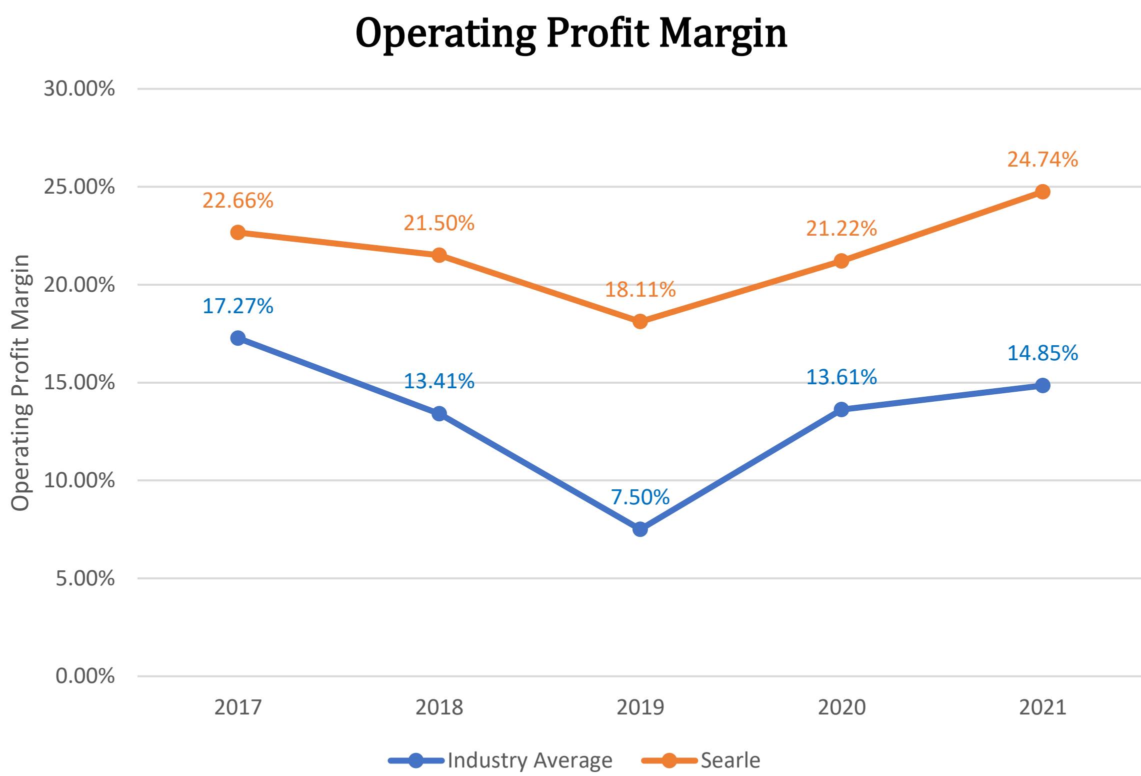
For Searle Ltd, the declining trend indicates a potential decrease in profitability or an increase in the cost of goods sold relative to revenue. Over the years the profit for Searle does increase from $2,034,030 in 2017 to $3,746,846 in 2021, but the cost of goods sold increase significantly when compared to the profit. The COGS increase from $5,415,140 in 2017 to $14,028,488. The industry average remains lower than Searle Ltd throughout the five years. This means that Searle has a very good position in its gross profit margin and investors see this as a favorable indicator.



Net Profit Margin is a financial ratio used to calculate the percentage of profit a company produces from its total revenue. It measures the amount of net profit a company obtains per dollar of revenue gained.

The overall trend for Searle Ltd is that in 2017, the net profit margin was 17.98%. This indicates that for every dollar of revenue generated by Searle Limited, the company retained approximately 17.98 cents as net profit after deducting all expenses. The net profit margin declined to 16.82% in 2018. This decrease suggests that the company's expenses may have increased relative to its revenue, resulting in slightly lower profitability compared to the previous year. In 2019, the net profit margin further decreased to 12.54%. This significant decline indicates that Searle Limited faced challenges in controlling costs or generating sufficient revenue. It implies that the company's profitability was impacted, 2020 saw the net profit margin remaining stable at 12.44% and in 2021, there was a slight improvement in the net profit margin, rising to 14.29%. This increase indicates that the company managed to enhance its profitability to some extent.

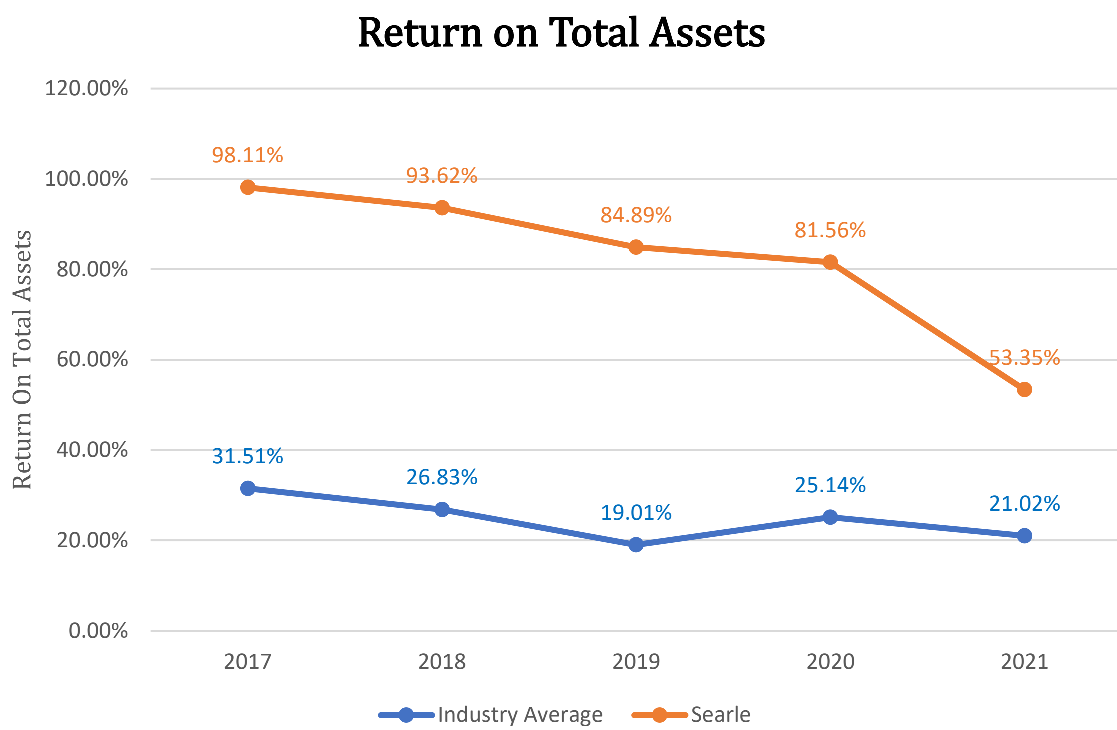
The industry average again remains below Searle Limited; this is seen as a positive indicator by investors. The costs have increased throughout the year but so has the revenue, relatively the revenue has increased more so the ratio has remained above the industry average.



The operating margin measures how much profit a company makes on a dollar of sales after paying for variable costs of production, such as wages and raw materials, but before paying interest or tax. It is calculated by dividing a company's operating income by its net sales.

Searle Ltd has demonstrated an overall increasing trend in the operating profit margin over the five-year period. It started at 22.66% in 2017 and steadily rose to 24.74% in 2021. There was a temporary decrease in the operating profit margin in 2019, dropping to 18.11%. This dip could be attributed to various factors, such as increased operating expenses, lower sales, or other financial challenges that impacted on the company's profitability during that period. Following the dip in 2019, Searle Ltd experienced a recovery in the operating profit margin. The margin increased to 21.22% in 2020 and further improved to 24.74% in 2021. This indicates that the company implemented measures to enhance profitability. The operating profit margin consistently improved from 2017 to 2021, indicating a positive trend in Searle Ltd.'s operational performance. This suggests that the company has been successful in maintaining or increasing its profitability over the years.

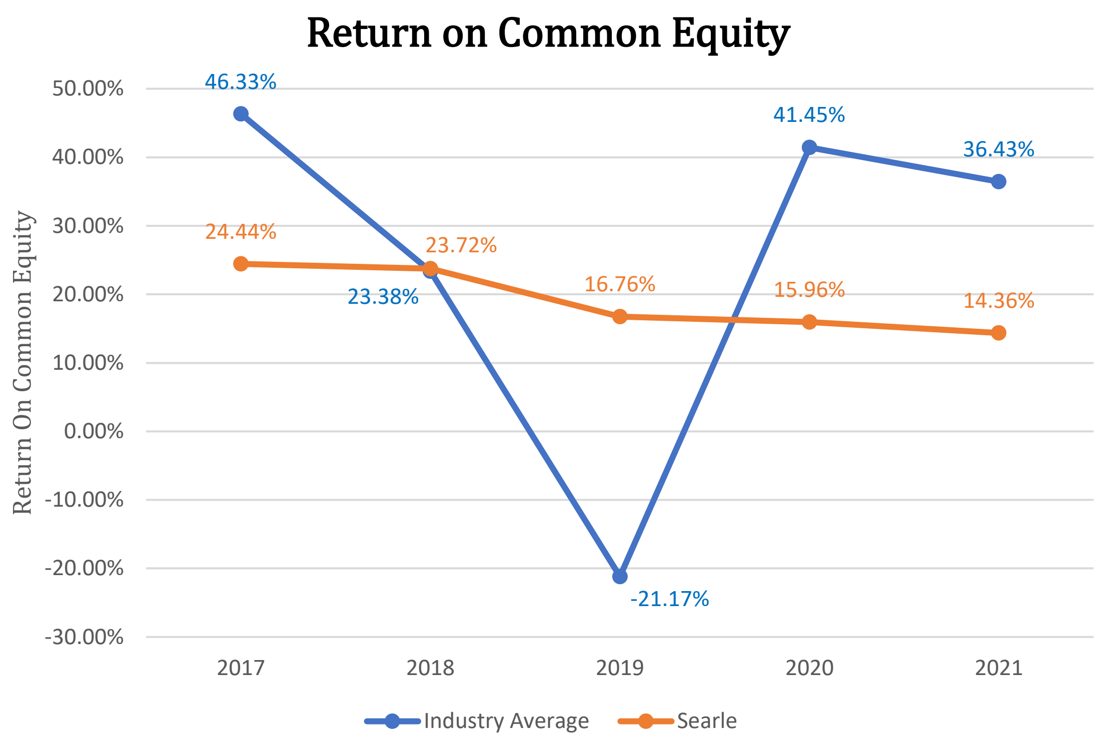
In 2020 Searle ltd witnessed a period of recovery and growth, as 2019 was not a good year for all businesses due to the pandemic. But still, overall, the company has managed to stay above the industry average and stay in a healthy position. There has been consistent growth over the five years except in 2019.



Return on Assets (ROA) is a type of return on investment (ROI) metric that measures the profitability of a business in relation to its total assets. This ratio indicates how well a company is performing by comparing the profit (net income) it's generating to the capital it's invested in assets.

The return on total assets for Searle Limited shows a consistent decline over the five-year period. It started at 17.64% in 2017 and decreased to 7.62% in 2021. The declining trend in the return on total assets suggests that the company's ability to generate earnings from its total assets has diminished over time. It indicates that Searle Limited may be facing challenges in effectively utilizing its assets to generate profits. The decreasing ROTA indicates a decrease in profitability relative to the size of the company's asset base. The ROTA consistently declined from 2017 to 2021, indicating a prolonged period of decreasing profitability relative to the company's total assets.

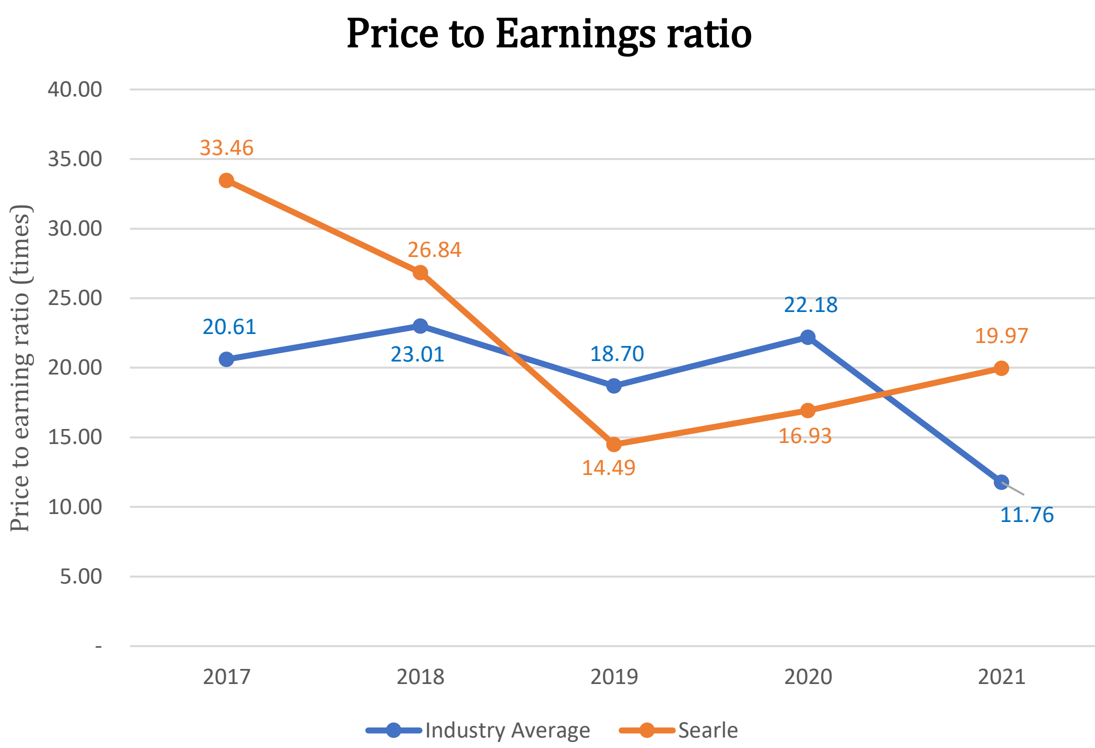
The industry average is below Searle Ltd until 2020 when they both have the same return. In 2021 the industry average increased and Searles return declines to 7.62%. This could be because of inefficient asset management, increased costs, declining sales, or other operational challenges. The declining ROTA indicates that Searle Limited has been less effective in generating profits from its total assets over time, but still, it was above the industry average until 2020. They just need to reevaluate and utilize their assets in an efficient way.



The return on common equity ratio measures how much money common shareholders receive from a company compared with how much they invested originally. It is one of five calculations used to measure profitability.

In 2017, the ROE was 24.44%. This indicates that for every dollar of common equity invested by shareholders, the company generated a return of 24.44 cents. It shows a strong profitability relative to the shareholders' equity during this year. In 2018, the ROE slightly decreased to 23.72%. Although there was a slight decline, the return on common equity remained at a relatively high level. It indicates that Searle Ltd continued to generate significant returns on its shareholders' investments. The ROE further declined to 16.76% in 2019. This decrease suggests that the company's profitability in relation to the shareholders' equity decreased during this period. It could be a result of factors such as increased expenses, lower net income, or changes in the capital structure. The ROE further declined to 16.76% in 2020. This decrease suggests that the company's profitability in relation to the shareholders' equity decreased during this period. It could be a result of factors such as increased expenses, lower net income, or changes in the capital structure. In 2021, the ROE declined to 14.36%. The decrease in the return on common equity suggests a continued decline in profitability relative to the shareholders' equity during this year. It indicates the need for the company to focus on improving its profitability and maximizing returns for its shareholders.

Overall, the trend in Searle Ltd.'s return on common equity shows a general decline from 2017 to 2021. This indicates potential challenges in maintaining profitability and generating satisfactory returns for shareholders

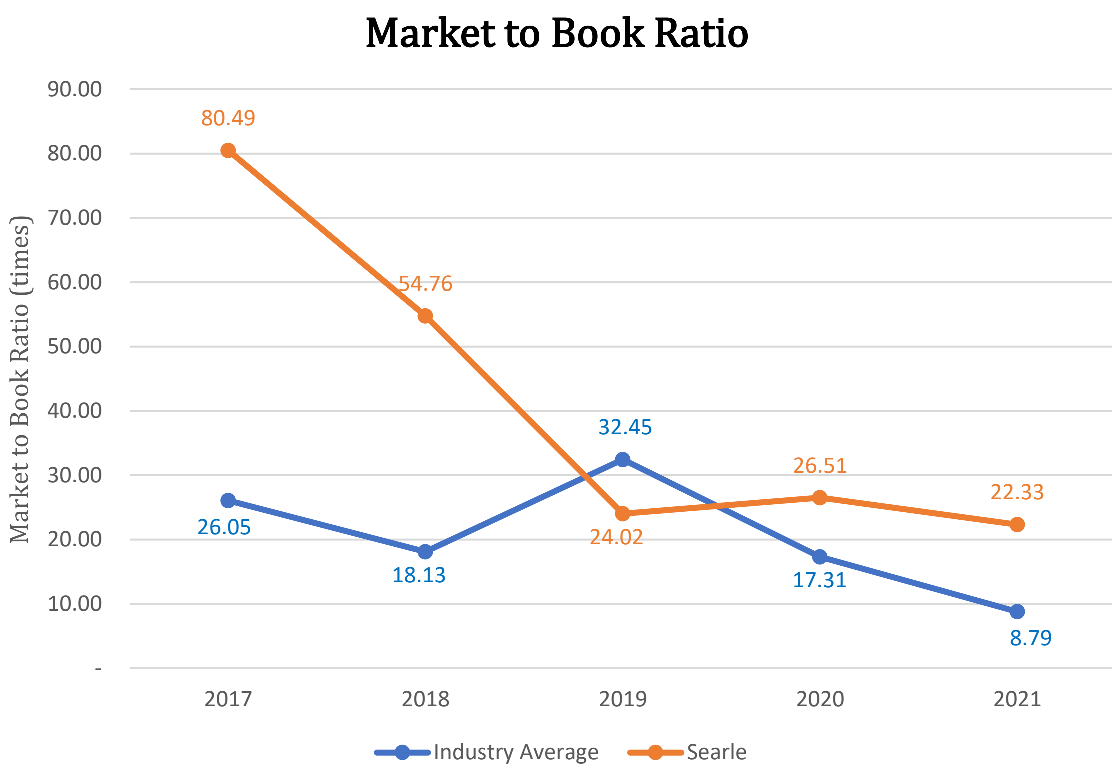


The price/earnings (P/E) ratio shows how much investors are willing to pay per dollar of reported profits. The ratio is used for valuing companies and to find out whether they are overvalued or undervalued.

Searle Pharmaceuticals has a high price-to-earnings ratio in 2017 compared to the industry average. This can be because investors saw Searle as a growth stock, and they thought of it as a good stock for investing. Investors could be expecting high growth rates in the future as well. The ratio drops in the next year for Searle while the industry average rises. In 2019 it dropped significantly to 14.49 as we can see Searles profits also dropped, the industry average also dropped in that year. This could be because Covid -19 started that year. In 2020 as companies get accustomed to Covid-19, the ratio rises and in 2021, again it makes a drastic improvement for Searle as profits jump to 3,746.846 from 2,548,047 while the industry average declines to 11.76 which was the lowest in the last four years.

While examining the factors that affect the price-earnings ratio, in 2017 the ratio for Searle ltd was high compared to the industry average. Investors must have thought of Searle as a growing stock, its stock price was also high at 511.98. In 2019 as Covid 19 rose, investors became very conservative with their investments, its stock price declined to 152.85 which also declined the pe ratio for the year. As companies were getting used to the effects of Covid-19, in 2021 Searle Ltd stock price rose to 242.62 which meant its pe ratio increased.

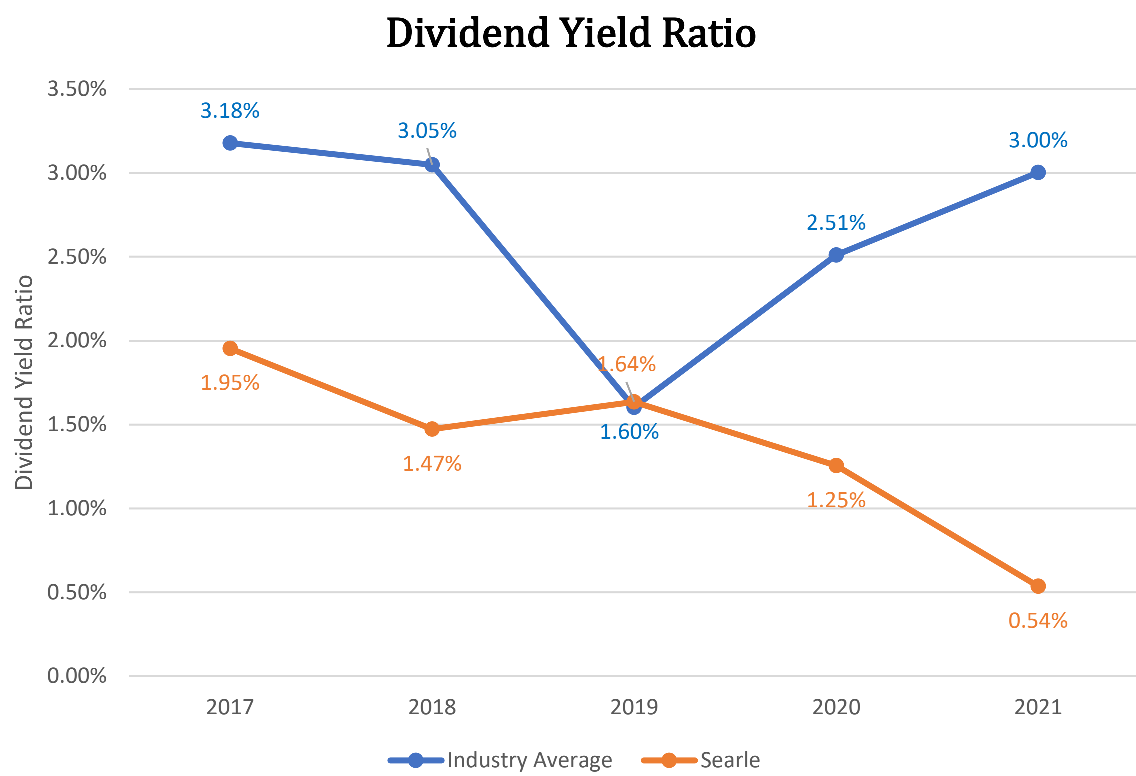
Overall Searle ltd has been performing very well compared to its industry average, which means that the investors see this as a favorable stock to invest in.



The market to book ratio again gives an indication as to how investors regard the company. Companies that are well regarded by investors, which means low risk and high growth, have high M/B ratios. The market to book ratio is a metric that compares your business's book value to its market value. This is determined by its current price on the stock market and any outstanding shares it may have.

In 2017 Searle has a very high ratio compared to the industry average, at 80.49 times. In 2018 it declines to 54.76 times. This is because the market price per share also declined to 339.5. In 2019 and 2020 the stock price did not rise that much, which meant the ratio did not change significantly. In 2021 the industry average came to single digits at 8.79 times while Searle ltd had 22.33 times of market to book ratio.

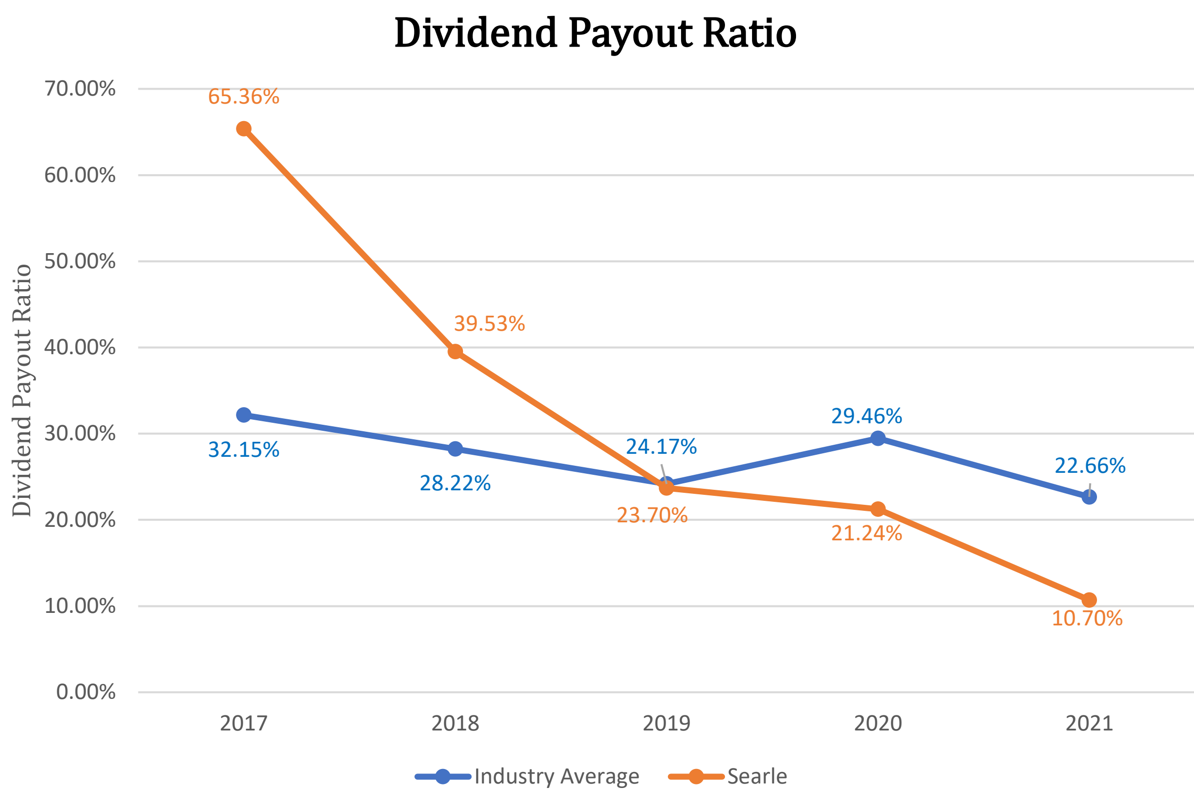
Searle Ltd has a very good position in the market to book ratio, as we also saw this in PE ratio, this is consistent with our findings. Searle had a consistent book value per share, its stock price declined in 2018, 2019 and 2020 and this is why the ratio also dropped. M/B ratios typically exceed 1.0, which means that investors are willing to pay more for stocks than the accounting book values of the stocks. This situation occurs primarily because asset values, as reported by accountants on corporate balance sheets, do not reflect either inflation or goodwill.



The dividend yield ratio, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price.

Searle Ltd has a lower ratio in 2017 compared to the industry average. It stays this way until 2019 when the industry average also declines, both the industry average and Searle Ltd had almost the same ratio in 2019. Moving forward, in 2020 and 2021 the industry average increases while for Searle Ltd the ratio declines respectively.

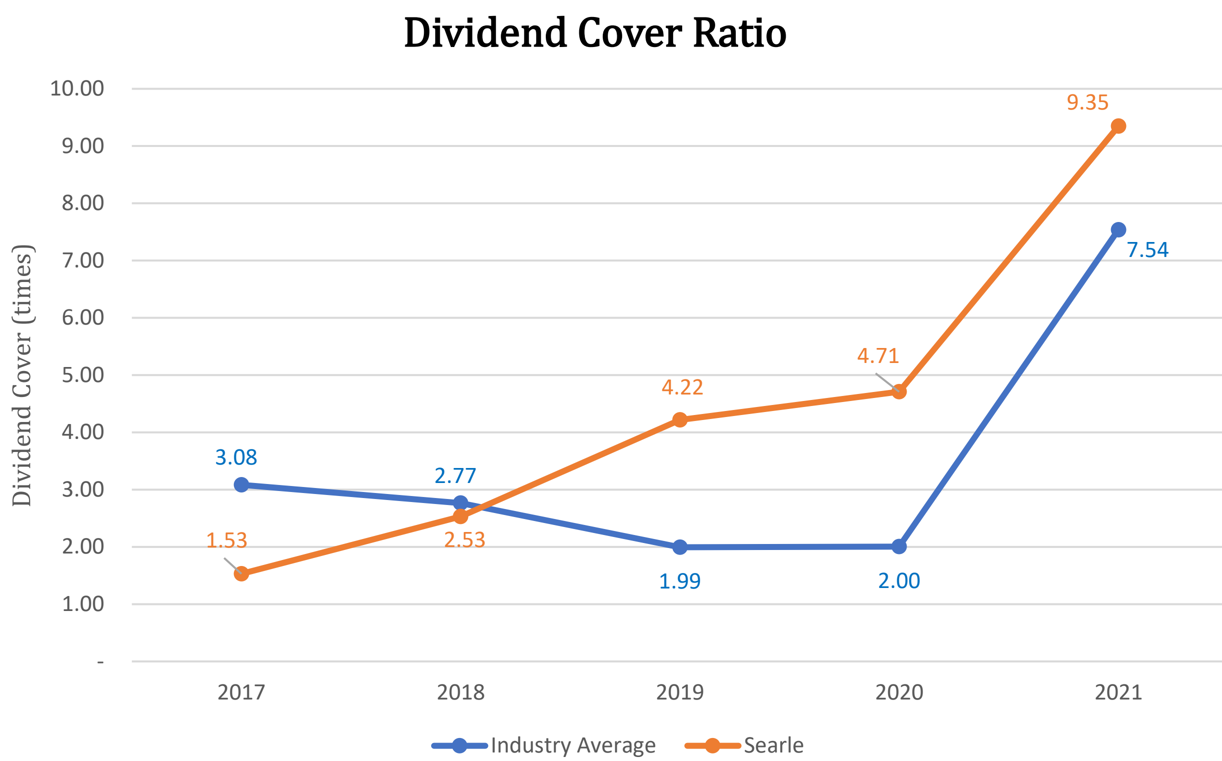
Yields from 2% to 6% are generally considered to be a good dividend yield, but there are plenty of factors to consider when deciding if a stock's yield makes it a good investment. The biggest factor impacting dividend yield is a company's stock price. When share prices rise, dividend yields fall—unless companies choose to boost dividend payouts. In 2017 Searle Ltd the share price was very high compared to its competitors which meant the dividend yield would be low. A declining dividend yield due to a higher stock price isn't necessarily a bad thing. It could mean that investors are more confident in the company and view it as a better investment and the appreciation you gain from a rising stock price can offset a lower dividend yield.



The Dividend Payout Ratio (DPR) is the number of dividends paid to shareholders in relation to the total amount of net income the company generates. In other words, the dividend payout ratio measures the percentage of net income that is distributed to shareholders in the form of dividends.

In 2017 Searle paid more in dividends (65.36%) compared to the industry average (32.15%). From then onward it started its declined till 2021. In 2019 the industry average and Searle Ltd dividend payout ratio was somewhat the same. After 2019 the ratio was lower than the industry average and in 2021 it was at the lowest of four years at 10.70% while the industry average was at 22.67%.

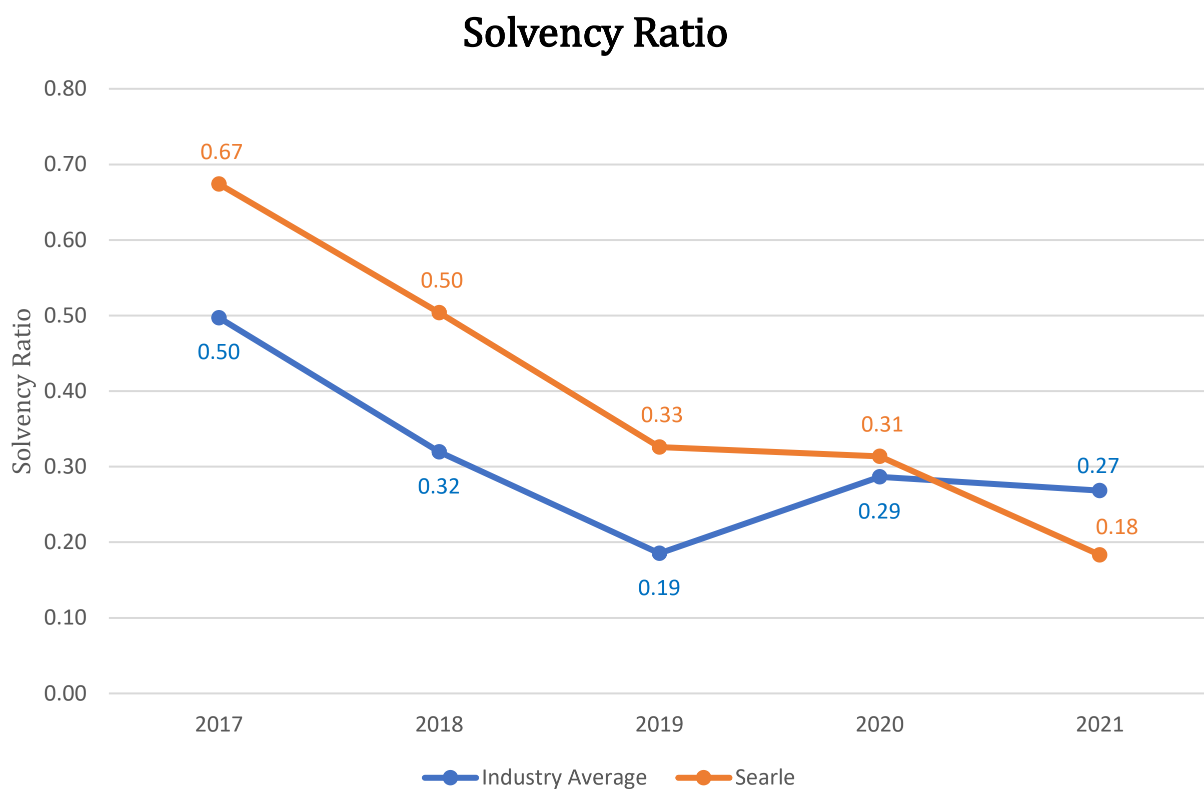
In 2017 the ratio was high for Searle, this could be because the company is reinvesting less money back into its business, while paying out relatively more of its earnings in the form of dividends. After that in the following years the ratio declines, the company is reinvesting more money back into expanding its business. By virtue of investing in business growth, the company will likely be able to generate higher levels of capital gains for investors in the future. The slow dividend payout ratio could also because of Covid-19 as businesses were getting back on their feet which meant they had to save more and give out dividends less.



The Dividend Coverage Ratio, also known as dividend cover, is a financial metric that measures the number of times that a company can pay dividends to its shareholders. The dividend coverage ratio is the ratio of the company's net income divided by the dividend paid to shareholders.

In 2017 Searle had a lower coverage than the industry average at 1:53. It was still above 1, which meant that dividends would be covered by the net income. In 2018 it increased, and the coverage was the same as the industry average at 2:53. From 2018 Searles coverage was more than industries all the way to 2021.

Searles' net income has been increasing year by year from 2017, the company was also not increasing the dividend price this shows in the coverage as it is increasing a DCR below 1.5 would be concerning, in 2017 the coverage comes down to these levels but does not go below 1.5, after 2017 it reaches healthy coverage levels, which is anything above 2.0.



A solvency ratio is a key metric used to measure an enterprise's ability to meet its long-term debt obligations and is used often by prospective business lenders. It helps us examine a company's financial health.

The solvency ratio was higher for Searle at 0.67 than the industry average which was at 0.496 in 2017. Then the trend of decline begins for both Searle and the industry average until 2019. The ratios were almost the same in 2020 at 0.31. but in 2021 the ratio was less for Searle than the industry average at 0.19. This could be because this was after the Covid-19 and companies were not in a very good position.

Overall, I think that when analyzing solvency ratios, it should not be done alone. Other metrics such as debt to equity ratio, the debt-to-capital ratio, and more should also be analyzed.