ASTER PRIME HOSPITAL

DUPONT ANALYSIS

MINI PROJECT REPORT

A STUDY ON FINANCIAL PERFORMANCE EVALUATION USING DUPONT ANALYSIS ON THE PHARMACEUTICAL INDUSTRY IN INDIA

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Submitted to

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DUPONT ANALYSIS

Dupont Analysis, also known as the Dupont Identity or Dupont Model, is a financial performance framework that decomposes Return on Equity (ROE) into three key components. This breakdown helps in understanding the underlying factors driving a company's ROE. The Dupont Analysis formula is:

ROE=Net Profit Margin×Asset Turnover×Finacial Leverage

1. **Net Profit Margin**: This measures how much profit a company makes for each Rupee of revenue. It is calculated as:

Net Profit Margin= Net Income/Revenue

2. **Asset Turnover**: This indicates how efficiently a company uses its assets to generate revenue. It is calculated as:

Asset Turnover = Net sales/Average Total Asset

3. **Equity Multiplier**: Financial leverage is represented by the **Equity Multiplier**. The Equity Multiplier measures the extent to which a company uses debt to finance its assets, reflecting the degree of financial leverage employed by the company.

The Equity Multiplier is calculated as:

Equity Multiplier = Total Asset/Total equity

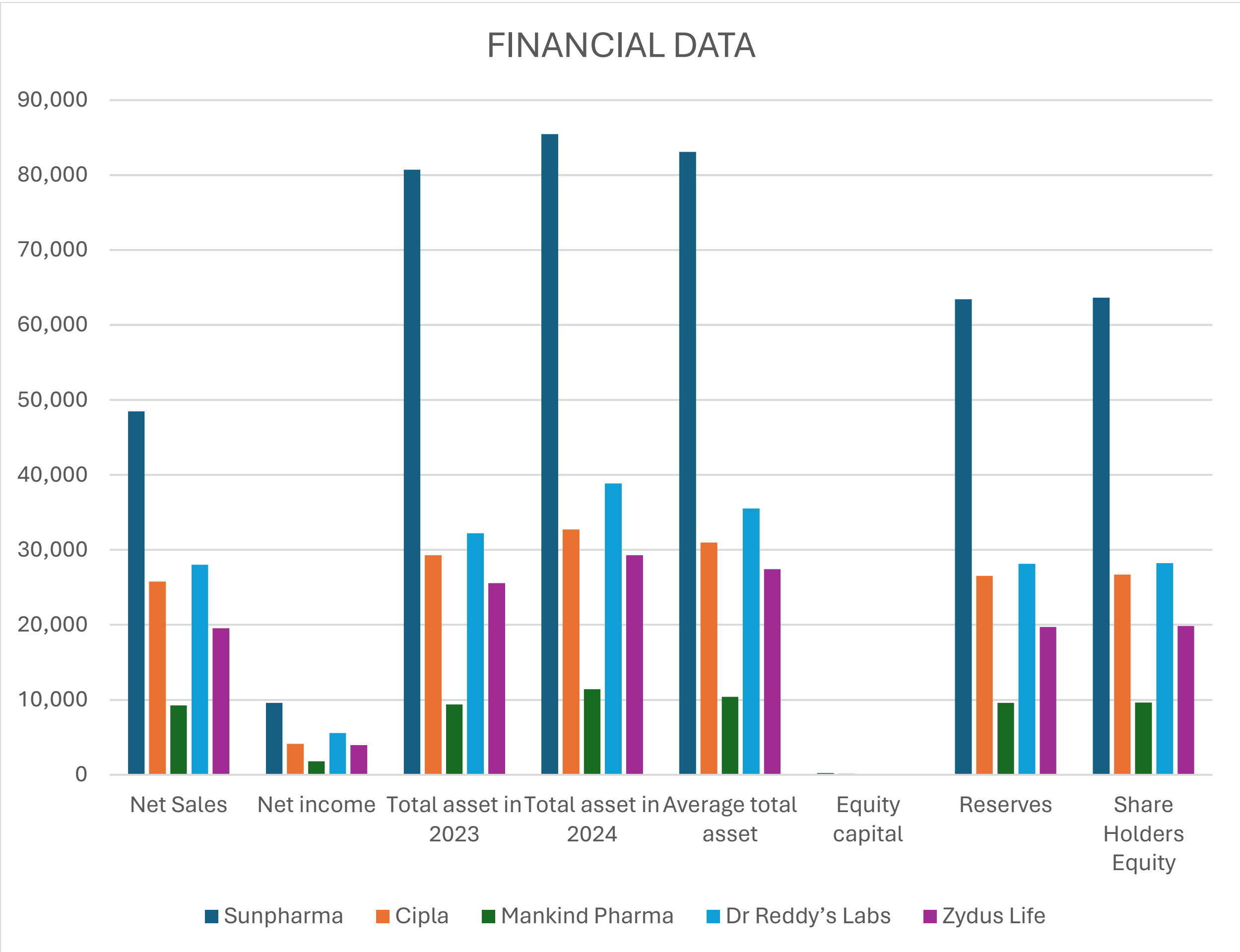
By breaking down ROE into these components, Dupont Analysis allows investors and analysts to see how profitability, efficiency, and leverage each contribute to the overall financial performance of a company.

- A high ROE driven by a high net profit margin suggests strong profitability.
- A high ROE due to high asset turnover indicates efficient use of assets.
- A high ROE resulting from a high equity multiplier implies greater use of debt financing.

This comprehensive approach can be particularly useful in identifying strengths and weaknesses within a company's financial strategy and operational effectiveness.

Data Analysis And Interpretation

FINANCIAL DATA (in crores)								
	Net Sales	Net income	Total assets in 2023	Total assets 2024	Average total Asset	Equity capital	Reserves	Share Holders Equity
Sun Pharma	48,497	9,610	80,712	85,463	83,088	240	63,427	63,667
Cipla	25,774	4,154	29,300	32,718	31,009	161	26,545	26,706
Mankind Pharma	9,265	1,823	9,371	11,418	10,395	40	9,584	9,624
Dr Reddy's Labs	28,011	5,578	32,209	38,864	35,537	83	28,171	28,254
Zydus Life	19,547	3,973	25,562	29,281	27,422	101	19,729	19,830



SUN PHARMA
- Net Sales: ₹48,497 crores
- Net Income: ₹9,610 crores
- Total Assets (2023): ₹80,712 crores
- Total Assets (2024): ₹85,463 crores
- Average Total Assets: ₹83,088 crores
- Equity Capital: ₹240 crores
- Reserves: ₹63,427 crores
- Shareholders' Equity: ₹63,667 crores

Interpretation: Sun pharma is the largest among the listed companies in terms of net sales and net income, indicating a strong market presence and profitability. Its total assets have grown from 2023 to 2024, showing an increase in the company's asset base. The high reserves and shareholders' equity suggest financial stability and a significant buffer for future investments or debt repayments.

CIPLA
- Net Sales: ₹25,774 crores
- Net Income: ₹4,154 crores
- Total Assets (2023): ₹29,300 crores
- Total Assets (2024): ₹32,718 crores
- Average Total Assets: ₹31,009 crores
- Equity Capital: ₹161 crores
- Reserves: ₹26,545 crores
- Shareholders' Equity: ₹26,706 crores

Interpretation: Cipla shows substantial net sales and net income, reflecting solid performance. The increase in total assets indicates growth, and the high reserves and equity capital imply good financial health. Cipla's financial leverage appears moderate, with a considerable portion of its assets financed through equity.

Mankind Pharma
- Net Sales: ₹9,265 crores
- Net Income: ₹1,823 crores
- Total Assets (2023): ₹9,371 crores
- Total Assets (2024): ₹11,418 crores
- Average Total Assets: ₹10,395 crores
- Equity Capital: ₹40 crores
- Reserves: ₹9,584 crores
- Shareholders' Equity: ₹9,624 crores

Interpretation: Mankind Pharma, while smaller in scale compared to others, shows consistent growth in total assets. The company's net sales and income are solid relative to its size. The high reserves and equity capital indicate financial strength and potential for expansion.

Dr. Reddy’s Labs
- Net Sales: ₹28,011 crores
- Net Income: ₹5,578 crores
- Total Assets (2023): ₹32,209 crores
- Total Assets (2024): ₹38,864 crores
- Average Total Assets: ₹35,537 crores
- Equity Capital: ₹83 crores
- Reserves: ₹28,171 crores
- Shareholders' Equity: ₹28,254 crores

Interpretation: Dr. Reddy’s Labs displays robust net sales and net income, coupled with significant growth in total assets. The company's substantial reserves and shareholders' equity reflect a strong financial position, capable of supporting its operations and growth strategies.

Zydus Life
- Net Sales: ₹19,547 crores
- Net Income: ₹3,973 crores
- Total Assets (2023): ₹25,562 crores
- Total Assets (2024): ₹29,281 crores
- Average Total Assets: ₹27,422 crores
- Equity Capital: ₹101 crores
- Reserves: ₹19,729 crores
- Shareholders' Equity: ₹19,830 crores

Interpretation: Zydus Life shows significant net sales and net income, with a steady increase in total assets from 2023 to 2024. The company has strong reserves and shareholders' equity, indicating a solid financial base. This stability suggests that Zydus Life can sustain its operations and pursue growth opportunities.

Insights

- Sun Pharma leads in net sales and net income, indicating market dominance.
- Cipla and Dr. Reddy’s Labs also show strong financial performance with substantial sales and income figures.
- Mankind Pharma, despite being smaller, maintains solid growth and financial health.
- Zydus Life has a strong financial position with steady growth in assets and good profitability.

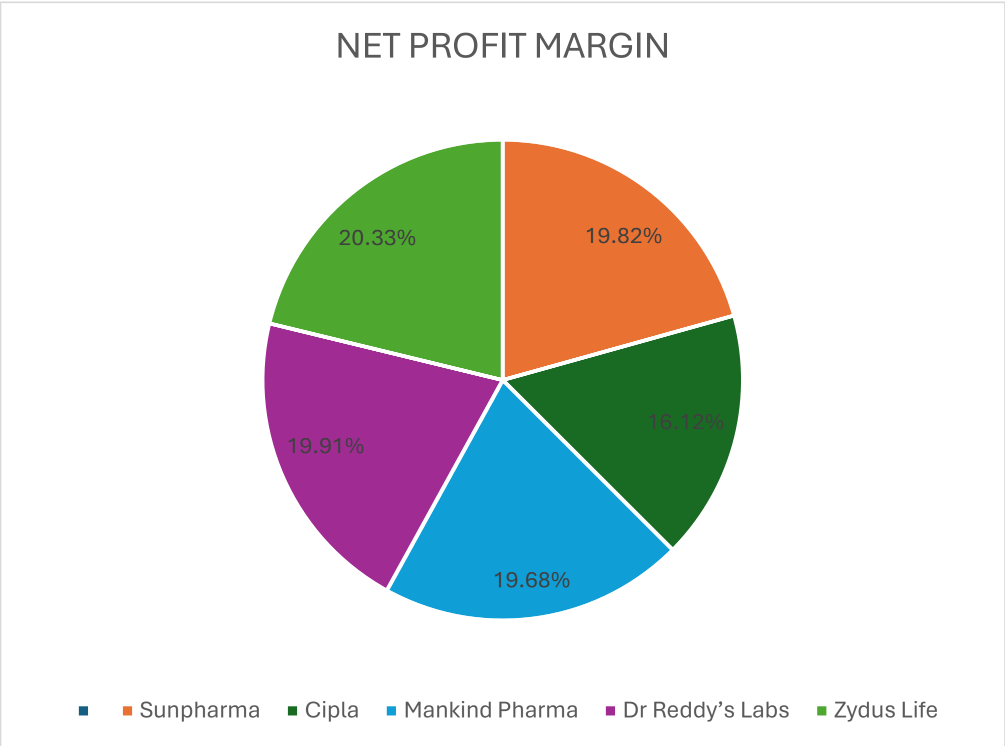
All companies demonstrate good financial health with growth in assets and profitability, but Sun Pharma stands out as the leader in terms of scale and financial strength.

NET PROFIT MARGIN

Net Profit Margin is a measure of how much profit a company makes for every rupee of sales, expressed as a percentage. It is calculated as:

Net Profit Margin= Net Income/Revenue

NET PROFIT MARGIN	
Sun Pharma	**19.82%**
Cipla	**16.12%**
Mankind Pharma	**19.68%**
Dr Reddy's Labs	**19.91%**
Zydus Life	**20.33%**



Sun Pharma

Net Profit Margin: 19.82%

Interpretation: Sun Pharma's net profit margin of 19.82% indicates that it earns almost 20 paise of profit for every rupee of sales. This high margin reflects efficient cost management and strong profitability.

Cipla

Net Profit Margin: 16.12%

Interpretation: Cipla's net profit margin of 16.12% shows that it earns slightly over 16 paise of profit for every rupee of sales. Although lower than some of its peers, this is still a solid profit margin, indicating effective cost control and good profitability.

Mankind Pharma

Net Profit Margin: 19.68%

Interpretation: Mankind Pharma's net profit margin of 19.68% is close to 20%, demonstrating that it is highly profitable with efficient operations and good cost control, like Sun Pharma.

Dr. Reddy’s Labs

Net Profit Margin: 19.91%

Interpretation: Dr. Reddy’s Labs has a net profit margin of 19.91%, indicating that it earns nearly 20 paise of profit for every rupee of sales. This high margin reflects strong profitability and efficient cost management.

Zydus Life

Net Profit Margin: 20.33%

Interpretation: Zydus Life’s net profit margin of 20.33% is the highest among the listed companies, showing that it earns over 20 paise of profit for every rupee of sales. This reflects very efficient operations and excellent profitability.

Comparative Insights of Net Profit Margin

- Zydus Life leads with the highest net profit margin at 20.33%, suggesting the most efficient operations and cost management among the group.
- Dr. Reddy’s Labs follows closely with a net profit margin of 19.91%, indicating strong profitability.
- Sun Pharma and Mankind Pharma have similar net profit margins of 19.82% and 19.68%, respectively, showing they are both highly efficient and profitable.
- Cipla has the lowest net profit margin at 16.12%, but it still demonstrates good profitability and efficient cost control relative to its sales.

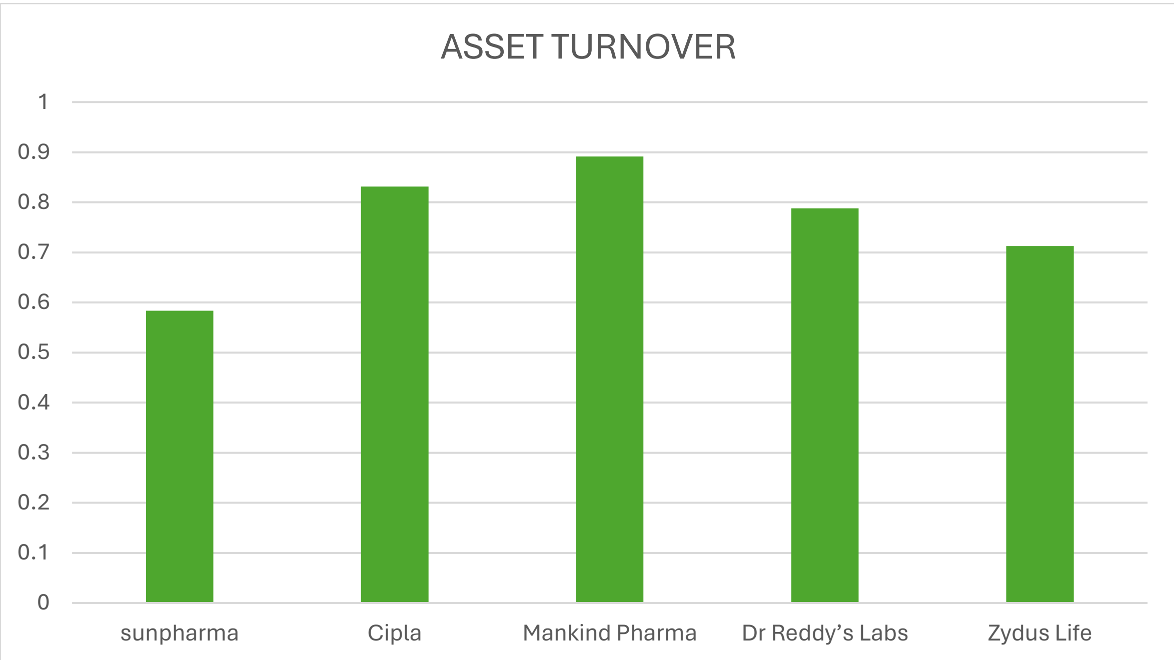
All five companies exhibit strong profitability, with net profit margins around or above 16%, reflecting efficient operations and effective cost management within the pharmaceutical industry.

ASSET TURNOVER

The Asset Turnover ratio measures how efficiently a company uses its assets to generate sales. It is calculated as:

Asset Turnover = Net sales/Average Total Asset

ASSET TURNOVER	
Sun Pharma	**0.583686**
Cipla	**0.831178**
Mankind Pharma	**0.891337**
Dr Reddy’s Labs	**0.788232**
Zydus Life	**0.712835**



Sun Pharma

- **Asset Turnover: 0.58**

Interpretation: Sun Pharma has an asset turnover ratio of approximately 0.58. This means that for every ₹1 of assets, the company generates ₹0.58 in sales. This indicates moderate efficiency in utilizing its assets to generate revenue, suggesting there may be room for improvement in optimizing asset use to increase sales.

Cipla

- **Asset Turnover: 0.83**

Interpretation: Cipla's asset turnover ratio of approximately 0.83 suggests that it generates ₹0.83 in sales for every ₹1 of assets. This reflects relatively high efficiency in asset utilization compared to Sun Pharma. Cipla is effectively using its assets to produce a higher volume of sales.

Mankind Pharma

- **Asset Turnover: 0.89**

Interpretation: Mankind Pharma has an asset turnover ratio of approximately 0.89, indicating it generates ₹0.89 in sales for every ₹1 of assets. This is the highest asset turnover ratio among the listed companies, showcasing exceptional efficiency in using its assets to generate revenue.

Dr. Reddy's Labs

- **Asset Turnover: 0.78**

Interpretation: Dr. Reddy's Labs has an asset turnover ratio of approximately 0.79, meaning it generates ₹0.79 in sales for every ₹1 of assets. This indicates good efficiency in using its assets to generate sales, though slightly lower than Cipla and Mankind Pharma.

Zydus Life

- **Asset Turnover: 0.71**

Interpretation: Zydus Life's asset turnover ratio of approximately 0.71 suggests it generates ₹0.71 in sales for every ₹1 of assets. This reflects moderate efficiency in asset utilization, better than Sun Pharma but lower than Cipla, Mankind Pharma, and Dr. Reddy's Labs.

Comparative Insights

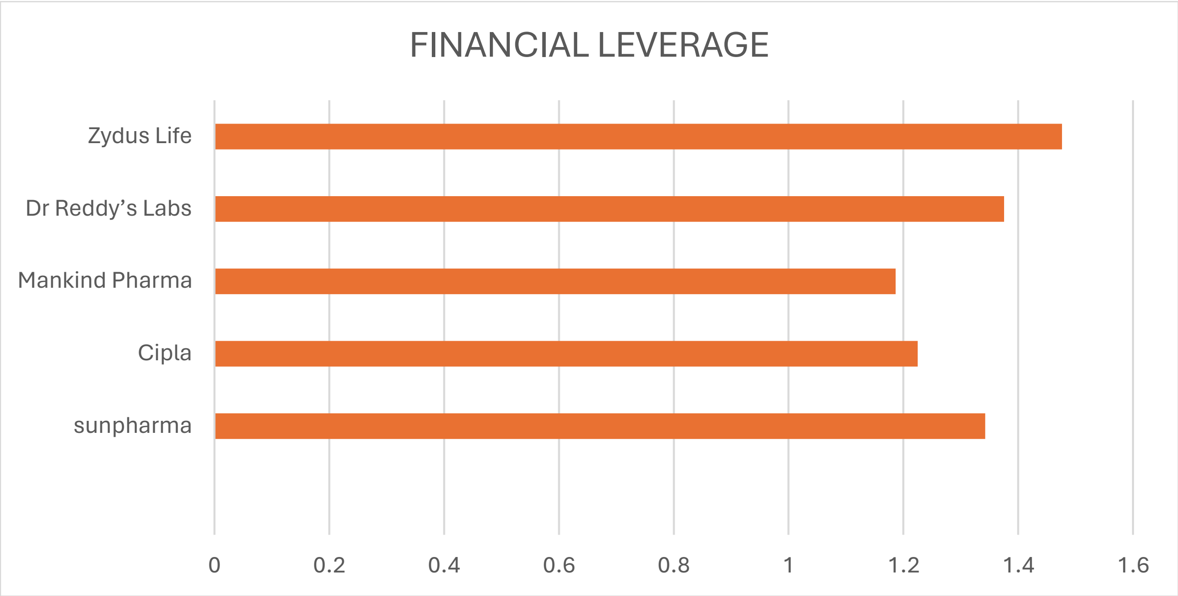
- Mankind Pharma leads with the highest asset turnover ratio (0.89), indicating the most efficient use of assets to generate sales among the companies listed.
- Cipla follows with a high asset turnover ratio (0.83), demonstrating strong efficiency in asset utilization.
- Dr. Reddy's Labs and Zydus Life have asset turnover ratios of 0.79 and 0.71, respectively, indicating good to moderate efficiency.
- Sun pharma has the lowest asset turnover ratio (0.58), suggesting that it generates less sales per unit of asset compared to its peers, highlighting the potential for improvement in optimizing asset use.

FINANCIAL LEVERAGE OR EQUITY MULTIPLIER

Financial leverage is represented by the Equity Multiplier, which measures how much a company uses debt to finance its assets. The Equity Multiplier is calculated as:

Equity Multiplier = Total Asset/Total equity

FINANCIAL LEVERAGE	
Sun Pharma	**1.342344**
Cipla	**1.225118**
Mankind Pharma	**1.186409**
Dr Reddy's Labs	**1.375522**
Zydus Life	**1.476601**



Sun Pharma

- **Financial Leverage (Equity Multiplier): 1.34**

Interpretation: Sun Pharma has a financial leverage ratio of approximately 1.34. This means that for every ₹1 of equity, the company has ₹1.34 in assets. This indicates a moderate use of financial leverage, where a significant portion of the assets is financed through equity, with some reliance on debt.

Cipla

- **Financial Leverage (Equity Multiplier): 1.23**

Interpretation: Cipla's financial leverage ratio of approximately 1.23 suggests that for every ₹1 of equity, the company has ₹1.23 in assets. This reflects relatively low financial leverage, implying that most of the company's assets are financed through equity, with minimal reliance on debt.

Mankind Pharma

- **Financial Leverage (Equity Multiplier): 1.19**

Interpretation: Mankind Pharma has a financial leverage ratio of approximately 1.19, indicating that for every ₹1 of equity, the company has ₹1.19 in assets. This shows a low level of financial leverage, suggesting that the company relies heavily on equity financing with minimal use of debt.

Dr. Reddy’s Labs

- **Financial Leverage (Equity Multiplier): 1.37**

Interpretation: Dr. Reddy’s Labs has a financial leverage ratio of approximately 1.38. This indicates that for every ₹1 of equity, the company has ₹1.38 in assets. This suggests a moderate use of financial leverage, where the company uses a balanced mix of equity and debt to finance its assets.

Zydus Life

- **Financial Leverage (Equity Multiplier): 1.47**

Interpretation: Zydus Life’s financial leverage ratio of approximately 1.48 indicates that for every ₹1 of equity, the company has ₹1.48 in assets. This reflects a higher use of financial leverage compared to its peers, suggesting that the company relies more on debt to finance its assets.

COMPARATIVE INSIGHTS OF FINANCIAL LEVERAGE

- Zydus Life has the highest financial leverage ratio (1.48), indicating the greatest use of debt relative to equity among the listed companies. This can amplify both returns and risks.
- Dr. Reddy's Labs and Sun pharma have moderate financial leverage ratios of 1.38 and 1.34, respectively, suggesting a balanced approach to financing their assets with both debt and equity.
- Cipla and Mankind Pharma have the lowest financial leverage ratios at 1.23 and 1.19, respectively, indicating a conservative approach with most assets financed through equity and minimal reliance on debt.

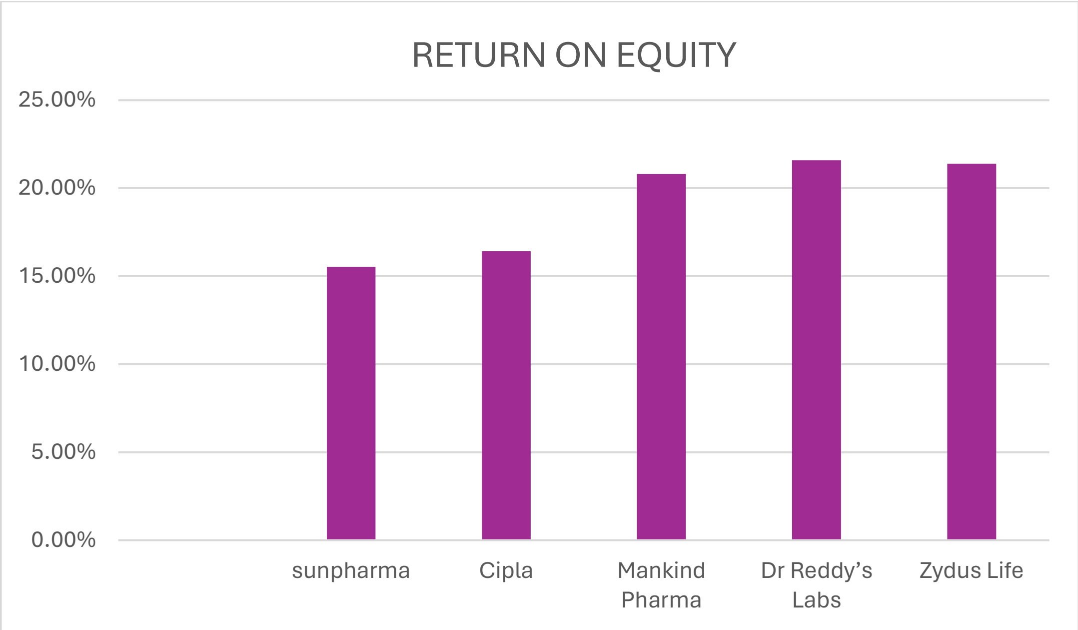
Higher financial leverage (Equity Multiplier) ratios indicate a greater reliance on debt to finance assets, which can enhance returns but also increase financial risk. Zydus Life shows the highest financial leverage, while Cipla and Mankind Pharma maintain more conservative leverage levels, relying more on equity financing.

RETURN ON EQUITY

The Return on Equity (ROE) measures a company's profitability relative to shareholders' equity. It is a key metric in the DuPont analysis and can be broken down into three components: net profit margin, asset turnover, and financial leverage (equity multiplier). ROE is calculated as:

ROE=Net Profit Margin×Asset Turnover×Finacial Leverage

RETURN ON EQUITY	
sun pharma	**15.53%**
Cipla	**16.41%**
Mankind Pharma	**20.81%**
Dr Reddy's Labs	**21.59%**
Zydus Life	**21.39%**



Sun Pharma

- **ROE: 15.53%**

Interpretation: Sun Pharma has an ROE of 15.53%, indicating that it generates ₹0.1553 in profit for every ₹1 of shareholders' equity. While this reflects a decent return on equity, it is the lowest among the listed companies, suggesting that Sun Pharma may have opportunities to improve its efficiency in using equity to generate profits.

Cipla

- **ROE: 16.41%**

Interpretation: Cipla's ROE of 16.41% means it generates ₹0.1641 in profit for every ₹1 of shareholders' equity. This indicates a better return on equity than Sun Pharma, showing that Cipla is slightly more efficient in using its equity to generate profits.

Mankind Pharma

- **ROE: 20.81%**

Interpretation: Mankind Pharma has an ROE of 20.81%, suggesting it generates ₹0.2081 in profit for every ₹1 of shareholders' equity. This high ROE reflects strong efficiency in using its equity to generate profits, indicating robust profitability and effective management.

Dr. Reddy's Labs

- **ROE: 21.59%**

Interpretation: Dr. Reddy's Labs has the highest ROE at 21.59%, meaning it generates ₹0.2159 in profit for every ₹1 of shareholders' equity. This indicates exceptional efficiency in utilizing its equity to generate profits, showcasing strong operational performance and profitability.

Zydus Life

- **ROE: 21.39%**

Interpretation: Zydus Life has an ROE of 21.39%, indicating it generates ₹0.2139 in profit for every ₹1 of shareholders' equity. This is very close to Dr. Reddy's Labs, reflecting excellent efficiency in using equity to generate profits and strong overall performance.

Comparative Insights on ROE

- Dr. Reddy's Labs has the highest ROE at 21.59%, demonstrating the most efficient use of shareholders' equity to generate profits among the listed companies.
- Zydus Life follows closely with an ROE of 21.39%, indicating highly efficient equity utilization and strong profitability.
- Mankind Pharma also shows strong performance with an ROE of 20.81%, reflecting robust profitability.
- Cipla has a lower ROE at 16.41%, suggesting it is less efficient in generating returns on equity compared to the top performers but still shows respectable efficiency.
- Sun Pharma has the lowest ROE at 15.53%, indicating the most room for improvement in utilizing its shareholders' equity to generate profits.

These ROE values highlight the companies' effectiveness in using shareholders' equity to drive profitability, with Dr. Reddy's Labs and Zydus Life leading in efficiency, followed by Mankind Pharma. Cipla and Sun Pharma, while still profitable, show comparatively lower efficiency in this regard.

Conclusion

This mini project report uses DuPont Analysis to evaluate the financial performance of five leading pharmaceutical companies in India: Sun Pharma, Cipla, Mankind Pharma, Dr. Reddy’s Labs, and Zydus Life. The analysis breaks down Return on Equity (ROE) into Net Profit Margin, Asset Turnover, and Financial Leverage to assess each company's performance.

Key Findings:

- Net Profit Margin: Zydus Life leads with the highest margin at 20.33%, indicating efficient operations. Dr. Reddy’s Labs, Sun Pharma, and Mankind Pharma also show strong profitability. Cipla has a solid margin but is slightly lower.
- Asset Turnover: Mankind Pharma has the highest asset turnover, showing exceptional efficiency in using assets to generate revenue. Cipla follows, with Dr. Reddy’s Labs and Zydus Life performing well. Sun Pharma has the lowest ratio, indicating room for improvement.
- Financial Leverage: Zydus Life uses the most debt relative to equity, enhancing returns but increasing risk. Dr. Reddy’s Labs and Sun Pharma have moderate leverage, while Cipla and Mankind Pharma use more conservative, equity-focused financing.
- Return on Equity (ROE): Dr. Reddy’s Labs leads with the highest ROE, showing exceptional efficiency in generating profits from equity. Zydus Life follows closely, with Mankind Pharma also showing robust profitability. Cipla and Sun Pharma have lower ROEs, indicating potential for improved equity utilization.

In summary, all five companies are financially healthy and profitable, each with its own strengths. Sun Pharma dominates in sales and income but has the lowest ROE. Dr. Reddy’s Labs and Zydus Life show strong performance across all metrics. Mankind Pharma demonstrates solid growth and financial health, while Cipla exhibits high efficiency and profitability with room for improvement in leveraging equity.

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