**Financial Statement Analysis of Companies**

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| **FMA Assignment MBAZC415** | | |
| **Name** | **Students ID** | **Company** |
| Karthikeyan C | 2024MB21228 | Dr. Reddy's Laboratories |
| Kiruthika C | 2024MB21252 | Sun Pharmaceutical Industries |
| Mohana Shree M | 2024MB21026 | Cipla |

**LIQUIDITY RATIO ANALYSIS:**

1. **Sun Pharmaceutical Industries:**

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| --- | --- | --- | --- | --- |
| **Liquidity Ratio** | **2024** | **2023** | **2022** | **2021** |
| **Current Ratio** | 2.56 | 2 | 2.04 | 1.89 |
| **Quick Ratio/Acid Test Ratio/Liquid Ratio** | 1.98 | 1.48 | 1.51 | 1.33 |
| **Absolute Cash Ratio** | 1.12 | 0.76 | 0.74 | 0.59 |

***Interpretation:***

* The company maintains a recommended **2:1 current ratio** except for the year 2021 (1.89) but still it is relatively close to the benchmark. It also maintains a **1:1 quick ratio** after excluding the inventories which means 50% of Sun pharma’s current assets are inventories. The difference between Current ratio and quick ratio is consistently maintained
* The **absolute cash ratio** has shown significant improvement from 2021 (0.59) to 2024 (1.12). While the recommended ratio is **0.5:1**, from the year 2022 to 2024, it has exceeded the threshold which means they have more than sufficient cash reserves. Although it’s recommended to have 0.3 to 0.5.
* This indicates a strong liquidity position especially improving in recent years which means they can cover short term liabilities. They are managing the inventory, payables and receivables well.

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**CONSOLIDATED LIQUIDITY RATIO ANALYSIS:**

**PROFITABILITY RATIO ANALYSIS:**

1. **Sun Pharmaceutical Industries:**

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| **Profitability Ratios** | **2024** | **2023** | **2022** | **2021** |
| **Gross Profit Ratio** | 57.3 | 55.5 | 52.9 | 53.6 |
| **Net Profit Ratio** | 19.4 | 19.2 | 8.61 | 6.65 |
| **Operating Profit Ratio** | 20.1 | 19.4 | 20.8 | 18.1 |
| **Return on Equity** | 15.2 | 15.3 | 7.09 | 4.92 |
| **Return on Capital Employed** | 15 | 14.8 | 16.2 | 12.5 |
| **Earnings Per Share (In Rs)** | 40.2 | 35.7 | 14.2 | 9.52 |

***Interpretation:***

* If Gross Profit > Operating Profit > Net Profit, then the company reflects a healthy and standard progression. This indicates consistent profit, but not huge growth as operating profit has increased in proportion to sales.
* In Net profit ratio, there is huge jump from 2022(8.61) to 2023(19.2) which is the profit after tax indicating efficiency in managing non-operating costs, taxes and interest expenses.
* There is a positive trend in Return on Equity and consistent improvement in Return on capital employed. This indicates that the company has made efficient capital usage and has made an increase in shareholder value by looking at the increase in Earnings per share. This highlights company’s strong financial performance.

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**CONSOLIDATED PROFITABILITY RATIO ANALYSIS:**

**TURNOVER RATIO ANALYSIS:**

1. **Sun Pharmaceutical Industries:**

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| --- | --- | --- | --- | --- |
| **Turnover Ratio/Efficiency Ratios** | **2024** | **2023** | **2022** | **2021** |
| **Debtors Turnover Ratio** | 4.28 | 3.98 | 3.93 | 3.62 |
| **Average Collection Period** | 85.38 | 91.62 | 92.79 | 100.69 |
| **Creditors Turnover Ratio** | 1.88 | 2.1 | 2.45 | 2.3 |
| **Average Payment period** | 194.01 | 173.92 | 149.03 | 158.71 |
| **Inventory Turnover Ratio** | 2.03 | 2 | 2.02 | 1.84 |
| **Working Capital Turnover Ratio** | 0.78 | 0.98 | 1.02 | 1.09 |
| **Fixed Asset Turnover Ratio** | 2.43 | 2.12 | 2.25 | 1.99 |

***Interpretation:***

* The higher ratio in debtors turnover and decrease in average collection period indicates that the Sun Pharma’s efficiency in collecting receivables have improved by collecting more frequently within the year.
* A good strategy to reserve/store cash is by taking too long to pay it creditors. By looking at the decrease in creditors turnover ratio and increase in average payment period, it seems like Sun Pharma is taking more time to settle its creditors potentially enhancing its cash position.
* The inventory turnover ratio is being relatively consistent for past three years meaning there is efficiency in inventory management. This reduces the risks of holding excess stock that may expire since it’s a pharmaceutical industry.
* There is a decrease in working capital turnover ratio meaning the company is using its working capital less efficiently. An increase in fixed asset turnover ratio indicates that the company has made better use of the fixed assets leading to generate higher revenue.

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**CONSOLIDATED TURNOVER RATIO ANALYSIS:**

**SOLVENCY RATIO ANALYSIS:**

1. **Sun Pharmaceutical Industries:**

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| --- | --- | --- | --- | --- |
| **Solvency Ratios** | **2024** | **2023** | **2022** | **2021** |
| **Debt-Equity Ratio** | 0.02 | 0.03 | 0.03 | 0.04 |
| **Proprietary Ratio** | 0.74 | 0.69 | 0.69 | 0.69 |
| **Interest Coverage Ratio** | 40.79 | 49.48 | 63.02 | 42.79 |

***Interpretation:***

* The proportion of debt is decreasing indicating that company relies more on equity for financing the company. In pharmaceutical industry, low proportion of debt is beneficiary. Higher the proprietary ratio, better for equity shareholders’ funds. Sun Pharma has improved from constant 0.69 to 0.74 in recent year.
* The decline in interest coverage ratio indicates that the company has higher interest rate expenses, but the ratio isn’t too low and is comparatively greater than debt equity ratio which indicates financial stability.

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**CONSOLIDATED SOLVENCY RATIO ANALYSIS:**

**VALUATION RATIO ANALYSIS:**

1. **Sun Pharmaceutical Industries:**

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| --- | --- | --- | --- | --- |
| **Valuations Ratios** | **2024** | **2023** | **2022** | **2021** |
| **Price Earnings (PE) RATIO** | 46.26 | 35.3 | 70.5 | 88.78 |
| **Price to Book (PB) RATIO** | 7.01 | 5.4 | 5 | 4.37 |

***Interpretation:***

* There is a sharp decline in Price earnings ratio from 2021 to 2023 maybe due to the slow growth of company however, the ratio went up in 2024 compared to the previous year meaning the company value has increased.
* Price to book ratio has a positive trend which indicates the market perception of strength ie., assets of the company. As per investor’s view, the company value will increase in the future and hence they are willing to pay more per equity share.

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**CONSOLIDATED VALUATION RATIO ANALYSIS:**