

# **FINANCIAL ANALYSIS OF DIVIS LABS**

**By**

**ARNAB MONDAL (20BCE1294)**

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in

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**VIT<sup>®</sup>**  
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# CHAPTER 1

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## ANNUAL REPORT

An annual report is a financial document that a public company prepares for its shareholders. These reports can be used by potential investors and securities analysts to evaluate a company's stock.

Basic overview of what is contained in an annual report:

- Chairman's Letter
- Business Profile
- Management's Analysis
- Financial Statements

## FINANCIAL STATEMENT

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. Financial statements include:

- Balance sheet: The term balance sheet refers to a financial statement that reports a company's assets, liabilities, and shareholder equity at a specific point in time. Balance sheets provide the basis for computing rates of return for investors and evaluating a company's capital structure. Balance sheets can be used with other important financial statements to conduct fundamental analysis or calculating financial ratios.
- Income statement: An income statement is a financial statement that shows the company's income and expenditures. It covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements. It usually provides two to three years of data for comparison.
- Cash flow statement: A cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investments sources.

## KEY PERFORMANCE INDICATORS

Key performance indicators (KPIs) refer to a set of quantifiable measurements used to gauge a company's overall long-term performance. KPI's specifically help to determine a company's strategic, financial and operational achievements, especially compared to those of other businesses within the same sector.

### SALES INDICATORS:

- Revenue: Revenue is the amount of money a company receives in exchange for its goods and services or conversely, what a customer pays a company for its goods or services. The revenue received by a company is usually listed on the first line of the income statement as revenue, sales, net sales, or net revenue.
- Net profit: Net profit is the amount of money your business earns after deducting all operating, interest, and tax expenses over a given period of time. To arrive at this value, one must need to know a company's gross profit. If the value of net profit is negative, then it is called net loss.

### CASH FLOW INDICATORS:

- Current ratio: The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.
- Liquid ratio: A liquidity ratio is a type of financial ratio used to determine a company's ability to pay its short-term debt obligations. The metric helps determine if a company can use its current, or liquid, assets to cover its current liabilities.

### FINANCIAL STATUS:

- Total assets: Total assets refers to the sum of the book values of all assets owned by an individual, company, or organization. It is a parameter that is often used in net worth debt covenants. The value of a company's total assets is obtained after accounting for depreciation.
- Total liability: Total liabilities are the combined debts and obligations that an individual or company owes to outside parties. Everything the company

owns is classified as an asset and all amounts the company owes for future obligations are recorded as liabilities.

- Total equity: It is the amount invested in a company by investors in exchange for stock, plus all subsequent earnings of the business, minus all subsequent dividends paid out.

## BUSINESS INDICATORS:

- Debt/Equity ratio: It is an important metric used in corporate finance. It is a measure of the degree to which a company is financing its operations through debt versus wholly owned funds. It reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.

$$\text{Debt/Equity} = \frac{\text{Total Liabilities}}{\text{Total Shareholders' Equity}}$$

- Return on equity (ROE): It is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. ROE is considered a gauge of a corporation's profitability and how efficient it is in generating profits.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

- Return on capital employed (ROCE): It is a financial ratio that can be used to assess a company's profitability and capital efficiency. This ratio can help to understand how well a company is generating profits from its capital as it is put to use.

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital Employed}}$$

EBIT = Earnings before interest and taxes

Capital Employed = Total assets - Current liabilities

- Return on assets (ROA): It is a measure of how efficiently a company uses the assets it owns to generate profits. Managers, analysts and investors use ROA to evaluate a company's financial health. The metric is commonly expressed as a percentage by using a company's net income and its average assets. A

higher ROA means a company is more efficient and productive at managing its balance sheet to generate profits while a lower ROA indicates there is room for improvement.

- Earnings per share (EPS): It is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution.

$$\text{EPS} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

- Dividend payout ratio (DPR): It is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders via dividends.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividends Paid}}{\text{Net Income}}$$

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## CHAPTER 2

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### COMPANY PROFILE

Divi's Laboratories Ltd is an Indian based manufacturer of Active Pharmaceutical Ingredients (APIs) and Intermediates. The company is engaged in manufacture of leading generic compounds Nutraceutical ingredients and custom synthesis of APIs and intermediates for global innovator companies. Divis is among the largest pharmaceutical companies in India with a portfolio of 120 products across diverse therapeutic areas.

The company has four manufacturing facilities and market presence across several countries. The company has two subsidiaries M/s. Divis Laboratories (USA) Inc. in the United States of America and M/s. Divi's Laboratories Europe AG in Switzerland for marketing its Nutra products and to provide a greater reach to customers within these regions. The company has two research centers at Sanathnagar Hyderabad and at the manufacturing sites.

As on 31 March 2020, the company has two overseas subsidiaries M/s. Divis Laboratories (USA) Inc., in the United States of America and M/s. Divi's Laboratories Europe AG in Switzerland for marketing its Nutra products.

Even Though, there were nationwide lockdown restrictions due to COVID-19 pandemic since March 24, 2020, the Government has exempted manufacturing units of essential goods including drugs and pharmaceuticals, medical devices, their raw materials and intermediates from the lockdown restrictions, amongst others. The Company has been operating in compliance with the various advisories/guidelines passed by the Government of India, State Governments and statutory institutions.

## ORGANIZATIONAL STRUCTURE:

- Chairman & Managing Director: Murali K Divi
- Executive Director: N V Ramana
- Director: Madhusudana Rao Divi
- Whole Time Director & CEO: Kiran S Divi
- Independent Director: G Suresh Kumar
- Independent Director: Ranga Rao Ravipati
- Independent Director: K V K Seshavataram
- Chairman (non-executive): Ramesh B V Nimmagadda
- Whole Time Director -Commercial: Nilima Motaparti
- Independent Director: S Ganapathy
- Independent Director: Sunaina Singh
- Independent Director: Kosaraju Veerayya Chowdary
- Company Secretary: Satish Choudhury
- Auditor: Price Waterhouse Chartered Accountants LLP
- Ind Name: Pharmaceuticals - Indian - Bulk Drugs
- House Name: Indian Private



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## CHAPTER 3

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### **Report on the Standalone Financial Statements**

In the auditor's report, they have audited the accompanying standalone financial statements of DIVI'S LABORATORIES LIMITED ("the Company"), which comprise the Balance Sheet as at 31st March, 2021, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Standalone Financial Statements**

According to the auditor's report, the company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with provisions of the Act for safeguarding the assets of the company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

**Opinion**

According to the auditor's opinion and to the best of information the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 2021 and its profit and its cash flows for the year ended on that date.

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## CHAPTER 4

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The main purpose of this study is to determine, forecast and evaluate the best of economic conditions and company's performance in the future. The other purpose of this study is to analyze the financial statement and then give information for financial managers to make thorough decisions about their business.

The financial statement applies tools, analytical techniques and required methods for business analysis. It is a diagnostic tool for evaluating financing activities, investment activities and operational activities as well as an assessment tool for management decisions and other business decisions. The analysis of financial statements, respectively the analysis of the financial reports are used by managers, shareholders, investors and all other interested parties regarding the company's state.

Managers use financial reports to see the situation in which the company stands and then provide information to shareholders, to see how reasonable are the investments made in the company. To potential investors, the analysis of the financial statements of the company is very important, because, first they want to know the actual state of the company and then decide whether to invest or not.

In order to assess and analyze the importance of financial indicators in the company, a number of qualitative and quantitative elements were used in this study. The financial statement of Company "Divis Laboratories" was analyzed using tools, analytical techniques, and appropriate methodologies during this study. The quantitative and quantitative data sources used in this study were both primary and secondary. Given that data does not make sense if it is isolated, a thorough examination of the auditor's report was conducted, and the company's financial records were compared for five consecutive years along with intra firm comparison.

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## CHAPTER 5

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### SALES

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
SALES	4,064	3,891	4,946	5,394	6,969

Sales are the proceeds a company generates from selling goods or services to its customers: In accounting terms, sales comprise one component of a company's revenue figure. The company's sales were 4,064 in March 2017 and 6969 in March 2021, representing a growth of 78.48 percent, which is a significant number in the pharmaceuticals business.

### TOTAL INCOME

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
TOTAL INCOME	4,139	4,004	5,101	5,584	7,031

Revenue is the total amount of income generated by the sale of goods or services related to the company's primary operations. Income, or net income, is a company's total earnings or profit. The company's total income increased by 69.87 percent from March 2017 to March 2021, reflecting a substantial improvement in the sector.

## TOTAL EXPENDITURE

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
TOTAL EXPENDITURE	2,741	2,772	3,243	3,756	4,365

The sum of the price paid for one or more products or services multiplied by the amount of each item purchased is the total expenditure. The company's total expenditure increased by 59.24 percent from March 2017 to March 2021, reflecting a substantial improvement in the sector.

## EBIT

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
EBIT	1,397	1,232	1,858	1,825	2,666

EBIT (earnings before interest and taxes) is a company's net income before income tax expense and interest expenses are deducted. EBIT is used to analyze the performance of a company's core operations. The company's EBIT were 1,397 in March 2017 and 2,666 in March 2021, representing a growth of 90.83 percent, which is a significant number in the pharmaceuticals business.

## NET PROFIT

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
NET PROFIT	1,060	877	1,352	1,376	1,984

Net profit is the amount of money the business earns after deducting all operating, interest and tax expenses over a given period of time. The company's net profit has increased by 87.16% from march 2017 to march 2021, which is a significant number in the pharmaceuticals business.

## RESERVES TOTAL

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
RESERVES TOTAL	5,355	5,906	6,920	7,263	9,218

A reserve is a retained earnings secured by a company to strengthen a company's financial position, clear debt & credits, buy fixed assets, company expansion, legal requirements, investment and other plans. The company's total reserves have increased by 72.13 percent from March 2017 to March 2021, reflecting a substantial improvement in the sector.

## SHAREHOLDER FUNDS

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
SHAREHOLDER FUNDS	5,408	5,959	6,973	7,316	9,271

Shareholders' funds refers to the amount of equity in a company, which belongs to the shareholders. The company's shareholder's funds have increased by 71.43 percent from March 2017 to March 2021, reflecting a substantial growth in the company's profit.

## LIABILITIES

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
CURRENT LIABILITIES	659	650	846	926	1,112
OTHER LIABILITIES	141	207	234	298	367
TOTAL LIABILITIES	6,158	6,783	8,038	8,535	10,774

Liabilities are the legal debts a company owes to third-party creditors. They can include accounts payable, notes payable and bank debt. A proper balance of liabilities and equity provides a stable foundation for a company. The liabilities of the company have been increasing indicating the company is acquiring more resources and acquiring funds.

## ASSETS

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
FIXED ASSETS	2,002	2,115	2,579	3,701	4,414
CURRENT ASSETS	4,010	4,535	4,650	4,679	6,174
OTHER ASSETS	145	132	808	154	184
TOTAL ASSETS	6,158	6,783	8,038	8,535	10,774

Business assets deliver value to a company because they can be used to produce goods, fund operations and drive growth. Assets include physical items such as machinery, property, raw materials and inventory, and intangible items like patents, royalties and other intellectual property. The assets of the company have been increasing to show the profitability of the business.

## INVENTORIES

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
INVENTORIES	1,255	1,281	1,663	1,744	2,042
TRADE RECEIVABLES	1,002	1,112	1,282	1,533	1,745

Inventory, in business, any item of property held in stock by a firm, including finished goods ready for sale, goods in the process of production, raw materials, and goods that will be consumed in the process of producing goods to be sold. Inventories appear on a company's balance sheet as an asset. The inventories have been increasing alongside the trade receivables which shows that the company is expanding rapidly.

## CASH FLOWS

ANNUAL (in Rs.Cr)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
OPERATING ACTIVITIES	1,150	775	954	1,215	1,946
INVESTING ACTIVITIES	-1,139	-478	-685	-83	75
FINANCING ACTIVITIES	2	-314	-245	-1091	-34
NET CASH FLOW	13	-16	22	41	1987

Cash flow refers to the net balance of cash moving into and out of a business at a specific point in time. Cash flow can be positive or negative. Positive cash flow indicates that a company has more money moving into it than out of it.



## MARKET CAPITALIZATION

ANNUAL (in Billion \$)	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
Market Cap	3.83	5.17	6.44	13.42	16.34

Market capitalization—refers to the total value of all a company's shares of stock. It is calculated by multiplying the price of a stock by its total number of outstanding shares. The market capitalization has increased 4 times, since the past 5 years which shows the exponential growth of the company.

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## CHAPTER 6

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We examined Divi's Laboratories Limited ("the Company's standalone ")'s financial statements, which include the balance sheet as of March 31, 2021, the statement of profit and loss (including Other Comprehensive Income), the statement of changes in equity, and the cash flow statements for the year then ended, along with notes to the standalone financial statements, which include a summary of significant accounting policies and other explanatory information.

The aforesaid standalone financial statements, in our opinion, provide the information required by the Companies Act 2013 ("the Act") in the manner required and present a true and fair view of the Company's state of affairs as at March 31, 2021 total comprehensive income (comprising profit and other comprehensive income), changes in equity, and cash flows for the year then ended in accordance with the accounting principles generally accepted in India.

## APPENDIX

Particulars ( Cr)		2021	2020	2019
Net Sales		6798.61	5310.57	4879.66
Operating Profit		2884.33	2006.27	2006.65
Other Income		62.53	189.86	156.58
Interest		1.81	7.03	4.61
Depreciation		254.65	185.95	168.81
Profit Before Tax		2627.87	1813.29	1833.23
Tax		673.15	440.58	500.58
Profit After Tax		1954.72	1372.71	1332.65
Net Working Capital		4880.17	2696.17	2559.77
Reserves		9218.48	7263.60	6920.22
Net Worth		9271.57	7316.69	6973.31
Loans		25.60	54.15	118.77

<b>Gross Block</b>	4685.46	3508.06	2633.29
<b>Investments</b>	7.37	978.72	1952.96
<b>Cash</b>	2142.01	107.36	105.20
<b>Operating Profit Margin (%)</b>	42.43	37.78	41.12
<b>Net Profit Margin (%)</b>	28.75	25.85	27.31
<b>Earning Per Share (Rs)</b>	73.64	51.71	50.20
<b>Dividend (%)</b>	1000.00	800.00	800.00