COMPREHENSIVE FINANCIAL HEALTH ASSESMENT OF DR.REDDYS LABORATORIES :

A Main Project submitted in partial fulfillment of the requirements for the award of

ARTIFICIAL INTELLIGENCE

Submitted by

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ABSTRACT

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Background:

The study aims to evaluate the financial performance includes the healthcare industry, has now taken a significant place within commercial practices. DR.Reddys laboratories(3-5 years)

Objective:

This study focused to investigate the significance and impact of financial assessment as a component of the company . The analysis employs financial ratios ,including profitability,liquidityand solvency ratios.

Materials and Methods:

The study used a mixed-methods approach, combining qualitative and quantitative data collection methods to gain comprehensive insights.collected the data from screnner , and financial data analysis were used to assess data insights, focusing on financial assessment programs. Data were analyzed in SPSS version 20.0.

Results:

Dr. Reddy's Laboratories shows strong financial health with consistent growth in reserves, improved ROCE, and efficient receivables management, while strategically investing in fixed assets and maintaining moderate leverage. However, the rising inventory days and cash conversion cycle in 2024 suggest areas for operational improvement.

Conclusion:

In conclusion, while Dr Reddy's Laboratories LTD displays positive trends in sales growth, a deeper dive into profitability and efficiency metrics reveals some areas that require further scrutiny. Analysing factors influencing OPM, ROE, and ROCE fluctuations would be crucial in forming a well-rounded conclusion about the company's overall financial health and future prospects.

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1. INTRODUCTION :

Dr. Reddy's Laboratories Ltd is a leading India-based pharmaceutical company which offers a portfolio of products and services, including Active Pharmaceutical Ingredients (APIs), Custom Pharmaceutical services (CPS), generics, biosimilars and differentiated formulations.
In FY22, the company generated approximately 83% of its revenue from the Global Generics Segment, offering around 400 high-quality generic drugs. They maintain competitive pricing through integrated operations that leverage expertise in active ingredients, product development, regulatory knowledge, and efficient supply chains. Key revenue contributors in this segment include nervous system drugs (14%), gastrointestinal drugs (13%), and anti-infectives (10%). Additionally, the company filed seven new Abbreviated New Drug Applications (ANDAs) with the US FDA during the fiscal year.

The Pharmaceutical Services & Active Ingredients (PSAI) division, responsible for 14% of revenue, is among the largest API manufacturers globally. It partners with leading generic formulators to expedite market entry, filing 139 Drug Master Files worldwide, including ten in the US. Also, the company runs a significant Custom Pharmaceutical Services (CPS) business in India, having divested its contract development and CDMO division in FY21.

Proprietary Products, accounting for roughly 2% of revenue, aim to create differentiated formulations and includes the company's subsidiary, Aurgene Discovery, focused on cancer and inflammation therapies.

Geographically, the USA contributed 37% of revenues, with India at 22%, and others at 32%. The company relies on two customers for about 15% of total revenues. Research and development (R&D) is conducted across nine facilities worldwide, with expenses declining from 13% in FY18 to 8% in FY22.

Manufacturing is facilitated by 23 facilities globally, including nine for APIs and 14 for formulations. The company has also engaged in partnerships for COVID-19 treatments and launched the Sputnik-V vaccine. It is increasing its focus on niche products and recently divested some proprietary brands while acquiring a portfolio of injectable products to enhance its market offerings.

SWOT Analysis in a historical, theoretical, time frame perspective, as an effective situation analysis technique which plays an important role in the fields of marketing, public relations, advertising and in any fields of requiring strategic planning. SWOT Analysis is an analysis method used to evaluate the ‘strengths’, ‘weaknesses’, ‘opportunities’ and ‘threats’ involved in an organization, a plan, a project, a person or a business activity. In this qualitative and descriptive study, firstly the position of SWOT Analysis in the strategic management process is explained, secondly the components of SWOT Analysis is examined.

One such component—probably *the* key component—is risk *measurement*, in particular the measurement of financial asset-return volatilities and correlations (henceforth “volatilities”). Crucially, asset-return volatilities are time varying, with persistent dynamics. This is true across assets, asset classes, time periods, and countries, as vividly brought to the fore during numerous crisis events. The financial analysis aims to analyze whether an entity is stable, liquid, solvent, or profitable enough to warrant a monetary investment. It is used to evaluate economic trends, set financial policies, build long-term plans for business activity, and identify projects or companies for investment. Financial analysis is a cornerstone of making smarter, more strategic decisions based on the underlying financial data of a company.

Whether corporate, investment, or technical analysis, analysts use data to explore trends, understand growth, seek areas of risk, and support decision-making. Financial analysis may include investigating financial statement changes, calculating financial ratios, or exploring operating variances.

2.COMPREHENSIVE FINANCIAL HEALTH ASSESSMENT

"The Significance of Finance: An In-Depth Exploration" :

“Finance is the supply of money when it is needed. ” “Finance is the method of gathering funds for productive purposes. ” “Finance has rightly been referred to as the science of money. ” “Finance can be described as that management area or collection of management functions within an organization that deals with the organization of cash and credit, ensuring that the organization has the resources to achieve its objectives as effectively as possible. ”

FINANCIAL ANALYSIS :

Financial analysis refers to the method of assessing the correlation between various elements of financial statements to gain a clearer insight into the company's standing and performance. ” “Financial analysis involves pinpointing the firm’s strengths and weaknesses by accurately establishing connections between the components of the balance sheet and the profit and loss account. "

TYPES OF FINANCIAL STATEMENT :

Income statement: - what has happened to a business as a result of Operations between two balance sheet dates.

Balance sheet: - It is a statement of financial position of a business at a specified Moment of time.

Statement of retained earrings: - The term retained earning means the accumulated excess of earnings over losses and dividend.

Methods of analysis are generally used:

- Comparative statements.
- Income statement
- Common-size statements
- Trend analysis
- Ratio

TYPES OF THE FINANCIAL ANALYSIS :

Internal analysis : An internal analysis involves an organization scrutinizing its internal elements to evaluate its resources, assets, traits, competencies, capacities, and competitive advantages. This assists management in decision-making, strategy creation, and implementation processes by pinpointing the organization's strengths and weaknesses.

In simple terms, an internal analysis allows a company to understand its capabilities, enhancing internal capacity to manage execution and transformation.

In strategic management, an internal analysis should act as the cornerstone of any business strategy, and we will guide you on how to perform one and what tools are available for conducting an internal evaluation in strategic management.

External analysis : External analysis involves investigating the industry landscape of a business, incorporating elements like competitive framework, competitive stance, trends, and background. On a larger scale, external analysis encompasses macroeconomic, worldwide, political, societal, demographic, and technological evaluations. The main goal of external analysis is to identify the opportunities and risks within an industry that will influence profitability, growth, and variability.

RATIOS OF DR.REDDY'S LABORATORIES:

	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024
Debtor Days	143	112	125	92	87
Inventory Days	224	250	242	219	291
Days Payable	109	118	121	127	148
Cash Conversion Cycle	**257**	**243**	**247**	**184**	**230**
Working Capital Days	148	128	144	95	144
ROCE %	19%	15%	12%	19%	25%

Standalone Figures in Rs. Crores / **View Consolidated**

Ratios

TYPES OF RATIOS

➢ Profitability Ratios :

o Net Interest Margin (NIM): Measures the difference between the interest income generated and the interest paid out relative to the amount of their interest-earning assets.

o Return on Assets (ROA): Indicates how profitable a pharma industries is relative to its total assets.

o Return on Equity (ROE): Measures the profitability relative to shareholders' equity.

➢ Efficiency Ratios

o Cost to Income Ratio: Measures the costs of running a pharma industrie as a percentage of its income.

o Operating Efficiency Ratio: Reflects how efficiently a industries is operating.

➢ Liquidity Ratio

o Current Ratio: Indicates the pharma industries ability to pay short-term obligations.

o Loan to Deposit Ratio: Measures the pharma company loans relative to its deposits.

o Liquidity Coverage Ratio (LCR):Ensures that the industries has an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be easily converted into cash to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

➢ Asset Quality Ratios o Gross Non-Performing Assets (GNPA) Ratio: Indicates the proportion of non-performing assets to total loans.

o Net Non-Performing Assets (NNPA) Ratio: Measures the net nonperforming assets after subtracting provisions.

o Provision Coverage Ratio (PCR):Indicates the proportion of provisions (reserves) made for NPAs.

➢ Capital Adequacy Ratios or Capital Adequacy Ratio (CAR) or Capital to Risk (Weighted) Assets Ratio (CRAR):Measures a industry capital in relation to its risk-weighted assets.

o Tier 1 Capital Ratio: Focuses on core capital, which includes equity capital and disclosed reserves.

➢ Leverage Ratios :

o Debt to Equity Ratio: Measures the bank’s financial leverage.

o Equity Multiplier: Indicates the proportion of a bank’s assets that are financed by

shareholders’ equity.

➢ Market Ratios :

o Earnings Per Share (EPS):Indicates the portion of a company’s profit allocated to each outstanding share of common stock.

o Price to Earnings (P/E) Ratio: Measures the current share price relative to its per-share earnings.

Consolidated Figures in Rs. Crores / View Standalone

Profit and loss statements

	Mar 2020	Mar 2021	Mar 2022	ar2023	Mar 2024
Sales +	17,517	19,048	21,545	24,670	30,085
Expenses +	15,040	15,173	17,778	18,200	22,024
Operating Profit	**2,477**	**3,874**	**3,768**	**6,470**	**8,061**
OPM %	14%	20%	17%	26%	27%
Other Income +	670	335	555	971	927
Interest	98	97	96	143	234
Depreciation	1,163	1,229	1,165	1,250	1,519
Profit before tax	**1,886**	**2,884**	**3,061**	**6,048**	**7,234**
Tax %	-7%	32%	29%	25%	
Net Profit +	**2,026**	**1,952**	**2,182**	**4,507**	**5,425**
EPS in Rs	24.38	23.47	26.23	54.14	64.00
Dividend Payout %	21%	21%	23%	15%	

Balance Sheet:

Consolidated Figures in Rs. Crores / View Standalone

	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024	Sep 2024
Equity Capital	83	83	83	83	83	83
Reserves	15,516	17,558	19,129	23,203	28,171	30,666
Borrowings +	2,210	3,031	3,384	1,347	2,002	4,854
Other Liabilities +	5,414	5,915	7,149	7,576	8,523	11,125
Total Liabilities	**23,223**	**26,588**	**29,746**	**32,209**	**38,780**	**46,728**
Fixed Assets +	6,850	8,206	8,122	9,219	10,426	17,254
CWIP	1,535	1,565	1,293	1,030	1,419	1,852
Investments	2,678	2,212	2,616	4,986	4,930	3,663
Other Assets +	12,160	14,605	17,715	16,974	22,004	23,960
Total Assets	**23,223**	**26,588**	**29,746**	**32,209**	**38,780**	**46,728**

3.COMPANY PROFILE :

DR REDDYS LABORATORIES :

Dr. Reddy's Laboratories is a multinational pharmaceutical firm from India located in Hyderabad. The company was established by Kallam Anji Reddy, who had earlier been employed at the mentor institute Indian Drugs and Pharmaceuticals Limited. [2] Dr. Reddy develops and sells a diverse assortment of pharmaceuticals both within India and in international markets. The company creates more than 190 medicines, 60 active pharmaceutical ingredients (APIs) for drug production, diagnostic kits, critical care products, and biotechnology.[13].

Dr. Reddy's started as a provider to Indian pharmaceutical companies, but it quickly began exporting to other markets with fewer regulations that benefited from not needing to invest time and resources in establishing a manufacturing facility that would receive approval from a licensing authority like the U. S. Food and Drug Administration (FDA). By the start of the 1990s, the increased scale and profitability from these unregulated markets allowed the company to shift its focus towards obtaining approval from drug regulatory agencies for their formulations and bulk drug production facilities – in more developed regions. This facilitated their entry into regulated markets like the US and Europe.[14]

International expansion

The company's first international move took it to Russia in 1992. There, Dr. Reddy's formed a joint venture with the country's biggest pharmaceuticals producer, Biomed. They pulled out in 1995 amid accusations of scandal, involving "a significant material loss due to the activities of Moscow's branch of Reddy's Labs with the help of Biomed's chief executive"[14]

In September 2020, the **organization joined forces** with the Russian Direct Investment Fund to **carry out** phase 3 trials of the Sputnik V COVID-19 vaccine in India, **as well as produce** and distribute **as many as** 100 million doses of the vaccine in India **through** its subsidiary Hetero Biopharma once **granted approval** by the Drugs Controller General (DCGI). [15]

The vaccine **entered** late-stage trials in January2021and **received** emergency use **authorization** on 12 April 2021 after **the completion of** phase 3 trials **that yielded** results **similar** to **those of** the late-stage trial **conducted** in Russia. [16]

Global Generics Segment (~83% of revenues in FY22)

Co. offers 400+ high-quality generic drugs, keeping costs reasonable by leveraging its integrated operations. The company benefits from its expertise in active ingredients, product development skills, a keen understanding of regulations and intellectual property rights & streamlined supply chain. [1]

Top revenue contributors of the segment are nervous system drugs (14%), gastrointestinal (13%) & anti-infective (10%) [2]

In FY22, co. filed 7 new ANDA's with US FDA [3]

Pharmaceutical Services & Active Ingredients (PSAI) (14% of revenues in FY22)

The company is one of the largest manufacturers of APIs in the world. It works with several leading generic formulator companies in bringing their molecules first to the market. **Its API development also helps its own generics business to be cost competitive and get to the market faster than competitors.** During FY22, co. filed 139 DMFs worldwide, including ten in the US. [3]

CPS - The company has one of the largest custom pharmaceutical services (CPS) businesses in India. It offers end-to-end product development and manufacturing services and solutions to innovator companies. [1] During FY21, the Co. sold the contract development and CDMO division of the CPS business of the Co. [4]

Top revenue contributors in the PSAI segment are cardiovascular (25%), anti-infective (~18%), and pain management (14%) [2]

Proprietary Products & Others (~2% of revenues)

This segment focuses on developing differentiated formulations that present significantly enhanced benefits in terms of efficacy, ease of use, and the resolution of unmet patient needs.

The company's wholly-owned subsidiary, **Aurgene Discovery, is a clinical-stage biotech company that is working on bringing novel therapeutics for the treatment of cancer and inflammation.** It has fully integrated drug discovery and development infrastructure from drug discovery and development infrastructure from hit generation to clinical development. [5]

Geographical Revenue Breakup

In FY22, USA accounted for 37% of revenues, followed by India (22%), Russia (9%), and others (32%).[6]

Revenue Concentration

Revenues from two customers of the Company's Global Generics segment represent approximately 15%, of the Company's total revenues for the year ended 31 March 2022. [6]

R&D Capabilities

The company has R & D operations through its 9 R&D facilities situated in India, the United Kingdom, Netherlands, and Malaysia. [7] **The company's R&D expenses as a % of total revenues has come down from 13% in FY18 to 8% in FY22.** [8] [5]

Manufacturing Capabilities

Presently, the company has 23 manufacturing facilities across the world. It has 9 manufacturing facilities for manufacturing APIs and 14 facilities to manufacture formulations.
Its foreign manufacturing facilities are located in Mexico, United Kingdom, USA, and China.[9]

Drugs for Covid-19

During FY21, the company partnered with various companies and organizations for the manufacturing of various Covid-19 treatment drugs such as Remdesivir, Avigan, Molnupiravir, Baricitinib, and various other crucial drugs used to treat covid-19.[10] During FY22, co. launched the Sputnik-V vaccine for COVID-19 in India. [3]

Increasing focus on Niche Products

The company is increasing its focus on limited competition niche products, injectables, and biosimilars, which are expected to provide a boost to its revenues and profitability in the medium term. [11]

Divestment

To focus on core business and growth brands, co. divested some brands belonging to Proprietary Products, co sold their US and Canada territory rights for ELYXYB (Celecoxib oral solution)l, to BioDelivery Sciences during FY2022, for a consideration of 110 crores. [3]

4. LITERATURE SURVEY

Literature survey

Leveranging a comprehensive assesment of the Dr. Reddy’s laboratories financial health and developing strategic recommendations for improvement :A comprehensive literature review.

Introduction :

The assessment of small companies' performance encompasses both financial and non-financial indicators of enterprises. The primary source of information regarding the financial indicators of business activities is the financial statements of a company; based on these documents, the evaluation of the company's business activities and financial condition is conducted. The assessment of small companies' business performance and financial condition plays a crucial role in the formulation of financial managerial decisions, as it assists in evaluating the risks and potential benefits associated with planning the prospective performance of the company.

<u>FINANCIAL STATEMENTS :</u>

There are various methods employed by accountants and financial analysts to assess the financial condition of a company. The objective of financial analysis is to furnish information to financial managers and analysts to facilitate informed decision-making regarding their business. Evaluating the financial position and performance of an enterprise is an essential skill that every manager must possess to render the most effective and appropriate decisions for the organization. The examination of financial statements constitutes a method of comparing, evaluating, or appraising the conditions of specific components of the balance sheet, which serve as a basis for making significant decisions. Consequently, financial analysis encompasses an examination of balance sheets concerning the past, present, and future of the enterprise. The individual values of balance sheet positions do not possess substantial analytical significance; however, their comparative value is enhanced when just posed with the values of other balance sheet positions. Financial analysis entails a detailed examination of the company's financial statements through the analysis of reports. The analysis of reports functions as a tool that efficiently calculates and interprets reports utilized by investors, creditors, enterprise executives, and others.[1]

Financial Statements According to the Accounting Standards, financial statements are a structured financial presentation and transactions undertaken in an organization. The main financial statements are the means used by the accounting for the purpose of collecting, processing and presenting economic information. The purpose of financial statements is to provide information on the position and financial changes as a very important basis for making managerial decisions (Asllanaj, 2008). The objective of the financial statements is to provide information about the financial situation, financial performance and changes in an entity's financial position that are usable by a wide range of users in making their economic decisions (Lewis, & Pendrill, 2004). Financial statements and reports arising from their study provide information on:

- Assets
- Liabilities
- Equity

- Income and expenditures and
- Cash Flow

Financial statements indicate the total impact of all prior choices made by management [1]. Financial statements are the corporate documents utilized by companies to convey the outcomes of their operations to diverse user groups, which may consist of managers, investors, creditors, and regulatory bodies. Subsequently, these groups utilize the disclosed information to make a range of decisions, such as determining whether to invest in or lend funds to the company.

The main financial statements are International Accounting Standards (IAS): • Income and expenditure statements,

• Balance Sheet,

• Cash Flow Statement,

• Statement of Equity Changes,

• Statement of Explanatory Note.

DETAILED ANALYSIS OF THE FINANCIAL RATIOS : It offers a thorough literature review on the analysis of companies' financial performance using liquidity and profitability ratio methods. Financial performance serves as an essential indicator of a company's overall health and sustainability, affecting investment choices and stakeholder trust. Liquidity ratios, such as the current ratio and quick ratio, evaluate a company's capacity to fulfill its short-term obligations, offering insights into operational efficiency and cash management. Conversely, profitability ratios, including return on assets (ROA) and return on equity (ROE), assess a company's ability to produce profit in relation to its revenue, assets, and equity. This review amalgamates recent research to underscore the connection between liquidity and profitability, stressing that strong liquidity positions frequently link to enhanced profitability metrics. The results highlight the significance of both ratios in delivering a comprehensive view of a company's financial performance, empowering managers and investors to make well-informed decisions.[2]

Liquidity and profitability ratios are two essential elements of financial performance evaluation. Liquidity ratios assess a firm's capability to satisfy its short-term liabilities, reflecting the effectiveness of its cash management. Common liquidity ratios consist of the current ratio and quick ratio, which offer insights into the short-term financial well-being of a business. A robust liquidity position is crucial for any organization, as it guarantees that the company can meet its immediate financial obligations without turning to external funding, thus minimizing financial risk [3]

Profitability ratios, in contrast, emphasize a company's capacity to produce profit in relation to its revenue, assets, and equity. Ratios such as Return on Assets (ROA) and Return on Equity (ROE) are frequently employed to evaluate profitability [4]Elevated profitability not only indicates a company’s operational effectiveness but also increases its appeal to investors and creditors. As noted by[5], a thorough analysis of profitability yields significant insights into the efficiency with which a company employs its resources to generate earnings.

Profitability Ratios in Assessing Financial Health :
Profitability ratios, such as Return on Assets (ROA) and Return on Equity (ROE), function as main indicators of a company's financial well-being and operational efficiency. Ratios offer insights into the effectiveness with which a company employs its resources to generate earnings [6]. An elevated ROA signifies that a company is more adept at transforming its assets into profit, which is vital for drawing in investors and obtaining financing.

Impact of External Factors on Liquidity and Profitability
External factors, including economic conditions, regulatory modifications, and market competition, considerably affect both liquidity and profitability ratios. Economic downturns, for example, can result in diminished sales and cash flow, which may impose pressure on a company's liquidity position [7]. In such circumstances, companies may be obligated to prioritize liquidity over profitability to ensure their persistence, potentially compromising long-term growth. Furthermore, regulatory modifications can alter the financial landscape, influencing how companies administer their liquidity and profitability. For instance, more stringent regulations may necessitate firms to maintain higher levels of liquid assets, thereby affecting their profitability ratios.

SWOT ANALYSIS : SWOT analysis serves as an essential strategic management instrument encompasses both internal and external factors [8]. More specifically, it functions as a tool that assists managers in formulating four distinct types of strategies based on the combinations of these four factors: SO (strengths-opportunities) strategies, WO (weaknesses-opportunities) strategies, ST (strengths-threats) strategies, and WT (weaknesses-threats) strategies. SWOT analysis entails the alignment of key external and internal factors to produce feasible strategies .[9]

Combining external factors (opportunities and threats) would be futile since firms have no control over them; similarly, merging internal factors (strengths and weaknesses) would not effectively direct strategy generation without external stimuli . Therefore, aligning external factors with internal factors establishes the foundation for creating effective strategies that provide the greatest advantage to the firm .[10]

Understanding Financial Stability : Financial stability is an important factor for any company, as it greatly affects their capacity to function efficiently, invest in expansion, and handle economic difficulties . For SMEs, financial stability can be described as the ability to sustain sufficient financial well-being over time, ensuring that they can fulfill their responsibilities while striving for sustainable business practices. Attaining financial stability is vital for enduring success, and it is demonstrated by several critical indicators, including liquidity, solvency, profitability, and proficient cash flow management[11]

DATA ANALYSIS :

Extracting meaning from data empowers us to make better decisions. And we're living in a time when we have more data than ever at our fingertips. Because of that, companies have been wisening up to the benefits of leveraging data and turning to data analysis to find insights to further business goals. listed data analysts and scientists as one of the most in-demand jobs, alongside AI and machine learning specialists and big data specialists [12].

5. SYSTEM ANALYSIS

5.1 HARDWARE AND SOFTWARE REQUIREMENTS

5.1.1 HARDWARE REQUIREMENTS

Processor	**- I5/Intel Processor**
RAM	**- 8GB (min)**
Hard Disk	**- 128 GB**
Key Board	**- Standard Windows Keyboard**
Mouse	**- Two or Three Button Mouse**
Monitor	**- Any**

5.1.2 SOFTWARE REQUIREMENS

Operating System	**: Windows 7/8/10**
Programming Language	**: Python**

Website :screener,chatgpt

Excel sheets

6. RESEARCH METHODOLOGY

6.Methodology :

RESEARCH APPROACH

The research approach outlines the strategy and methods to systematically collect, analyze, and interpret data for the study. For a financial statement analysis of DR.Reddys laboratories, a quantitative research approach is most suitable as it involves numerical data analysis to evaluate financial performance.

DATA COLLECTION :

In methodology, data collection refers to the systematic process of gathering and measuring information on variables of interest. This process allows researchers to obtain a complete and accurate dataset, which can then be analyzed to answer research questions, test hypotheses, and evaluate outcomes. Data collection methods can be qualitative or quantitative and include techniques such as surveys, interviews, observations, and experiments. The choice of method depends on the research objectives, the nature of the variables, and the study design.By doing all these we are using the 'screener' website and mc kinscey to collect the data of DR. Reddys laboratories.

The data includes:

1.Collection of required data from annual reports of "DR REDDYS LABORATORIES",
2.Reference from journals relating to financial management and articles published in business dairies like the Economic times, business line etc.

3.Data is collected in 3-5 years statements of balance sheets ,income statements,cash flow statements from past years .

4. And other market trends can also be collected.

<u>SCOPE OF THE STUDY :</u>

The current study only moves around the financial analysis of the DR. REDDYS LABORATORIES. The present study concentrates only on the financial department of theREDDYS LABORATORIES with the use of comparative income statement and ratio analysis and balance sheets.And preparing the data analysis and key insights and strategic sugessions etc.

<u>NEED OF THE STUDY</u>

➢ The project work is done for analyzing the financial position and develop strategic recommendations for improvement.

➢ The analysis of the financial position gives a better picture of the financial position of the organization in order to take better decisions.

➢ Financial management is very important for both individuals and organizations, it deals with managing the funds.

➢ It guides a company to make optimum use of money to achieve maximum returns.

➢ Financial analysis helps to an organization to save more and thus invest.

OBJECTIVES OF THE STUDY

➢ To study the financial position of the DR.Reddys laboratories.

➢ To compare the profitability position of the company.

➢ To analyze the liquidity position .

➢ To know the credit worthiness position .And conducting swot analysis.

➢ To observe the operating efficiency .By internal and external factors.

Evaluate the potencial financial risks.

➢ To give the suitable conclusions , suggestions for the better improvement ,key insights and strategic sugessions.

7. DATA ANALYSIS AND INTERPRETATION

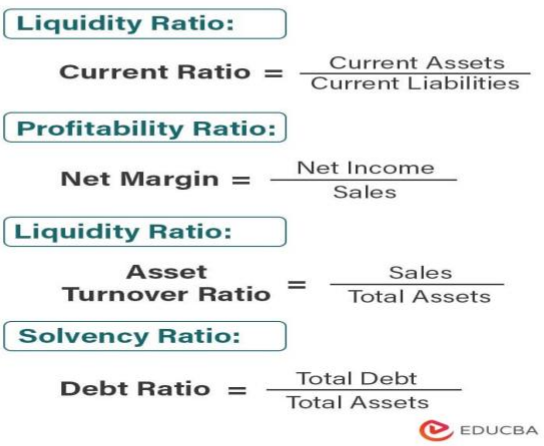
DATA ANALYSIS :

Analysis and interpretation of financial statements are an effort to ascertain the importance and meaning of the financial statement data so that a projection may be made regarding the potential for future earnings, capacity to pay interest, debt maturities, both short-term and long-term, and the viability of a sound dividend policy. The primary role of financial analysis is the identification of the strengths and weaknesses of a business endeavor by reorganizing and evaluating the figures found in financial statements, through the comparison of different components, and by investigating their content. The analysis and interpretation of financial statements constitute the final step of the four primary phases of accounting.

Detailed analysis of key financial ratios :

[liquidity,profitability,solvency,efficiancy]

LIQUIDITY OR SHORT TERM SOLVENCY RATIO : The financial ratios that are available can be generally categorized into six types according to the type of information they offer. Utilizing ratios from each category will provide you with a thorough perspective of the company from various viewpoints and assist you in identifying possible warning signs.



1. Liquidity Ratios

Liquidity ratios measure a company's ability to pay off short-term debts as they become due, using the company's current or quick assets. Liquidity ratios include:

- Current ratio
- Quick ratio
- Working capital ratio

2. Solvency Ratios

Also called financial leverage ratios, solvency ratios compare a company's debt levels with its assets, equity, and earnings. These are used to evaluate the likelihood of a company staying afloat over the long haul by paying off both long-term debt and the interest on that debt. Examples of solvency ratios include:

- Debt-equity ratios
- Debt-assets ratios
- Interest coverage ratios

3. Profitability Ratios

These ratios convey how well a company can generate profits from its operations. Examples of profitability ratios are:

- Profit margin ratio
- Return on assets
- Return on equity
- Return on capital employed
- Gross margin ratio

4. Efficiency Ratios

Also called activity ratios, efficiency ratios evaluate how efficiently a company uses its assets and liabilities to generate sales and maximize profits. Key efficiency ratios include:

- Turnover ratio
- Inventory turnover
- Day's sales in inventory

5. Coverage Ratios

Coverage ratios measure a company's ability to make the interest payments and other obligations associated with its debts. Examples include:

- Times interest earned ratio
- Debt-service coverage ratio

6. Market Prospect Ratios

Market prospect ratios are the most commonly used ratios in fundamental analysis. Investors use these metrics to predict earnings and future performance. These ratios include:

- Dividend yield
- P/E ratio
- Earnings per share (EPS)
- Dividend payout ratio

<u> financial ratios for the last 5 years:</u>

Year	Current Ratio	Quick Ratio	Debt-to-Equity Ratio
Mar 2020	2.25	1.60	0.14
Mar 2021	2.47	1.70	0.17
Mar 2022	2.48	1.77	0.18
Mar 2023	2.24	1.60	0.06
Sep 2024	2.58	1.84	0.17

<u>Insights:</u>

1. Current Ratio: Indicates a strong liquidity position, consistently above 2.

2. Quick Ratio: Shows the company's ability to cover current liabilities without relying on inventory; it's improving.

3. Debt-to-Equity Ratio: Low and stable, suggesting conservative use of debt in financing.

Data Analysis and Insights :

<u>Profitability Ratios:</u>

1. Return on Equity (ROE):

Stable around 9-10%, showing consistent returns generated on shareholder equity.

Slight decline in Sep 2024 indicates lower efficiency in profit generation relative to equity growth.

2. Net Profit Margin:

Gradual improvement from 6.0% (Mar 2020) to 7.03% (Sep 2024), reflecting better control over expenses or increased pricing power.

<u> Efficiency Ratios:</u>

1. Asset Turnover:

Declined from 1.08 (Mar 2020) to 0.79 (Sep 2024), suggesting reduced efficiency in utilizing assets to generate revenue.

2. Inventory Turnover:

Fluctuating but stable around 4-5 times, indicating consistent inventory management.

<u>Liquidity and Leverage :</u>

1. Current and Quick Ratios:

Both ratios consistently above 2, indicating strong liquidity and ability to cover short-term obligations without stress.

2. Debt-to-Equity Ratio:

Extremely low (<0.2), reflecting conservative debt usage, except for Sep 2024 due to increased borrowings.

Growth Trends:

1. Equity Growth:

Robust year-on-year growth, peaking at 23.46% in Sep 2024 due to strong reserves accumulation.

2. Borrowings Growth:

Significant reduction in Mar 2023 (-60%) followed by a sharp rise (+260%) in Sep 2024, possibly for expansion or capital investments.

3. Total Assets Growth:

Gradual increase, with a notable jump in Sep 2024 (+45%).

Recommendations over the analyzing period :

- Investigate the decline in Asset Turnover to identify under utilized assets or inefficiencies.
- Monitor the spike in borrowings for Sep 2024 to ensure it aligns with profitable growth plans.
- Maintain focus on improving Net Profit Margin through cost efficiency or pricing strategies.

DR REDDYS LABORATORIES FINANCIAL RATIO ANALYSIS

<u>7.1SWOT ANALYSIS :</u>

SWOT Analysis (short for strengths, weaknesses, opportunities, threats) serves as a business strategy tool to evaluated how an organization measures up against its competitors. The strategy is traditionally attributed to Albert Humphrey in the 1960s, though this credit is still a topic of discussion. There is no widely-accepted originator. Commonly referred to as the SWOT Matrix, it has gained recognition for its effectiveness in distinguishing and defining a niche within the larger market.

Outside of the business sector, SWOT Analysis can likewise be utilized on an individual level to evaluate a person's situation in relation to their competition as well. The tool incorporates both internal and external factors. "Strengths" and "weaknesses" are related to internal aspects. The former indicates a characteristic of an organization/entity that provides it with an edge over its rivals. The latter denotes traits of that same entity that result in a relative disadvantage compared to the competition. Concerning external factors, "opportunities" are situations in the broader environment that can be leveraged for the entity's benefit. Conversely, "threats" are aspects in the larger environment that could pose challenges for the entity.

The SWOT Analysis examined elements both within and outside of an entity, and it is sometimes referred to as an Internal-External Analysis. Given the extensive nature of the tool, it serves both organizational and individual purposes. Although originating in the business sector, it also has relevance in clinical settings, such as at the organizational level.

At the hospital or clinical office level, executing SWOT can be accomplished by posing questions such as the following:

Strengths:

What advantages does the organization possess?
What capabilities do you have that surpass those of others?
What distinctive or most cost-effective services can you offer to patients?
What do patients in your area consider to be the strengths of your organization?

Weaknesses:

- Upon what factors could the organization improve?
- What are patients in your market likely to see as your organization's weakness?
- What lack of services loses your organization patients?

Opportunities:

- What good opportunities are available to your organization?
- What are the new and exciting trends your organization can try?
- What new changes to governmental regulation/policy can benefit your organization?

Threats:

- What problems does your organization face?
- Of what are your organization's competitors taking advantage?
- Do evolving technologies and new services threatening your organization's position in the minds of patients?
- Does your facility have cash-flow problems?
- Could any of your weaknesses threaten quality patient care?

SWOT ANALYSIS OF DR.REDDYS LABORATORIES :

Strengths

1. Revenue Growth:

Consistent growth in sales, with a compounded sales growth of 13% over 5 years and 14% over 3 years.

Strong TTM sales at Rs. 30,085 crore.

2. Profitability:

Net profit has significantly increased over the years, reaching Rs. 5,425 crore in 2024.

Operating profit margins (OPM) have improved to 28% in 2024.

3. Strong Reserves:

Reserves have grown consistently, reaching Rs. 30,666 crore by 2024.

4. Efficient Operations:

Positive ROCE (27%), showcasing effective use of capital.

5. Low Debt Levels:

Debt/equity ratio is low at 0.04-0.27 across peers, indicating financial stability.

Weaknesses

1. Dependency on Borrowings:

Borrowings have fluctuated and increased to Rs. 4,854 crore in 2024, which might indicate a reliance on external financing.

2. Decline in Quarterly Profit Growth:

While annual profit growth is strong, some quarters show negative profit variation (e.g., Dr. Reddy's Labs: -15.28%).

3.High Inventory Days:

Inventory days have increased to 283, which may tie up working capital and reduce operational efficiency.

4. Weak Dividend Payout:

- Dividend payout has decreased from 26% to 12% in recent years, possibly disappointing investors looking for returns.

5. Rising Cash Conversion Cycle:

Increased to 271 days, showing delays in converting working capital to revenue.

Opportunities

1. Industry Growth:

Indian pharmaceutical sector is growing, with demand for bulk drugs and formulations.

Stronger focus on healthcare post-pandemic provides an opportunity for expansion.

2. Export Potential:

Increased global demand for Indian pharmaceuticals, offering scope for export revenue growth.

3. Product Diversification:

Opportunities to enter new therapeutic segments or enhance R&D to create high-margin drugs.

4. Strategic Investments:

Investment in fixed assets (e.g., Rs. 17,254 crore in 2024) and R&D can lead to long-term growth.

5. Mergers & Acquisitions:

Potential for acquisitions to expand market share or capabilities.

Threats :

1. Regulatory Challenges:

Stringent regulations and inspections (e.g., by US FDA) can disrupt operations and exports.

2. Competition:

Intense competition from domestic players like Sun Pharma and Cipla, as well as international companies.

3. Economic Volatility:

- Fluctuating foreign exchange rates and raw material prices may impact profitability.

4. Rising Costs:

Increasing operational expenses, such as higher depreciation and interest costs.

5. Patent Expirations:

Expiry of key drug patents may result in revenue loss.

Conclusion:

This pharmaceutical company shows strong growth and profitability with opportunities to expand globally. However, it must address operational inefficiencies and potential regulatory challenges to sustain its competitive edge.

7.2Internal and External Factors Impacting Financial Health Of DR.Reddys laboratories :

Internal Factors :

1. Operational Efficiency:

High inventory days (283) and cash conversion cycle (271 days) reflect inefficiencies in inventory and working capital management.

2. Profit Margins:

Operating profit margins (28% in 2024) are a strength, but fluctuations in margins over the years indicate variability in cost control.

3. Debt Management:

Increasing borrowings (Rs. 4,854 crore in 2024) may lead to higher interest costs and financial stress if not managed effectively.

4. Dividend Policy:

Declining dividend payout (12%) may impact investor confidence, despite strong profitability growth.

5. R&D Investments:

Significant investments in fixed assets (Rs. 17,254 crore in 2024) show a focus on long-term growth but can strain cash flows in the short term.

External Factors :

1. Market Competition:

Competition from peers like Sun Pharma, Cipla, and Mankind Pharma can pressure margins and market share.

2.Regulatory Environment:

Compliance with domestic and international regulations (e.g., US FDA approvals) can lead to delays, fines, or bans on key products.

3. Economic Conditions:

Rising raw material costs and foreign exchange volatility can increase production costs and affect exports.

4. Industry Trends:

Global demand for generic drugs and biosimilars presents growth opportunities but also exposes the company to pricing pressures.

5.Investor Sentiments:

Fluctuations in institutional and retail investor holdings can influence stock price stability and capital raising ability.

Evaluation of Potential Financial Risks

1. Liquidity Risk:

High working capital days and inventory buildup may strain liquidity.

Declining cash flow from operations (Rs. 4,543 crore in 2024 vs. Rs. 5,888 crore in 2023) exacerbates this risk.

2. Regulatory and Compliance Risks:

Non-compliance with FDA or local regulations can lead to product recalls, fines, or export restrictions.

3. Market and Competitive Risks:

Aggressive pricing by competitors or loss of patents could erode market share.

4. Debt-Related Risks:

- Increasing debt levels could result in higher interest costs and reduce net profits.

5. Economic and Currency Risks:

- Dependency on imports for raw materials exposes the company to currency exchange risks and cost inflation.

6. Supply Chain Disruptions:

Delays in raw material procurement or distribution can impact production timelines and sales.

Risk Mitigation Strategies

1.Improve Operational Efficiency:

Optimize inventory management to reduce inventory days and cash conversion cycles.

Implement advanced supply chain and ERP systems to improve cost tracking and efficiency.

2. Strengthen Cash Flows:

Focus on improving receivables collection to enhance liquidity.

Diversify revenue streams to reduce dependency on specific markets or products.

3. Regulatory Compliance:

Establish robust internal auditing and quality control systems to ensure adherence to regulations.

- Invest in training programs for regulatory compliance across markets.

4. Debt Management:

Refinance existing loans at lower interest rates to reduce borrowing costs.

Use retained earnings and improved cash flows to reduce reliance on external borrowings.

5. Hedge Against Currency Risks:

Use financial instruments like forward contracts and options to manage forex exposure.

6. Innovation and Diversification:

Invest in R&D to develop patented, high-margin products.

Diversify into emerging markets or therapeutic segments to mitigate regional or product-specific risks.

7.Strengthen Investor Relations:

Maintain consistent communication with institutional and retail investors to build confidence.

Gradually increase dividend payout as financial conditions stabilize.

8. Risk Monitoring Systems:

Implement early warning systems for potential supply chain or market disruptions.

Regularly review financial and operational metrics to detect signs of stress.

By addressing these risks proactively, the company can safeguard its financial health and position itself for sustainable growth in the competitive pharmaceutical industry.

8. IMPLEMENTATION

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Using Google Colab for analyzing your Excel sheet is an excellent choice, as it provides Python-based tools for efficient data analysis and visualization. Here's a step-by-step guide to get started:

1. Upload Your Excel File to Google Colab

Opened Google Colab (https://colab.research.google.com/).

Uploaded Excel sheet:

Click on the Files icon on the left panel.
Selected Upload and add your Excel file.

2. Installed Required Libraries

You need Python libraries like pandas, numpy, matplotlib, and seaborn for data analysis and visualization. Run this command to install missing libraries :

CODE :

```
python
!pip install pandas numpy matplotlib seaborn openpyxl
```

3. Load the Excel File into a DataFrame :

Use pandas to read the Excel file. Replace your file.xlsx with the actual filename.

CODE :

```
python
import pandas as pd

# Load the Excel file
file_path = '/content/your_file.xlsx'  # Adjust the path if necessary
data = pd.read_excel(file_path)

# Display the first few rows
data.head()
```

4. Clean and Preprocess the Data

Perform data cleaning to handle missing values, duplicates, or data types.

CODE :

```
python
# Check for missing values
print(data.isnull().sum())

# Fill missing values (example: replace NaNs in "Sales" column with the column's mean)
data['Sales'] = data['Sales'].fillna(data['Sales'].mean())
```

```
# Remove duplicates
data = data.drop_duplicates()

# Convert numeric columns (if needed)
data['Sales'] = data['Sales'].astype(float)
```

5. Perform Exploratory Data Analysis (EDA) :
Analyze trends and patterns in the data using descriptive statistics and visualizations.

Descriptive Statistics:

```
python
# Summary statistics
data.describe()
```

Data Visualization:

```
python
import matplotlib.pyplot as plt
import seaborn as sns
```

Sales Trend Over the Years

```
sns.lineplot(data=data, x='Year', y='Sales')
plt.title('Sales Trend')
plt.show()
```

Profit Margin by Company

```
sns.barplot(data=data, x='Company', y='Profit Margin')
plt.title('Profit Margin by Company')
plt.xticks(rotation=45)
plt.show()
```

6. Calculate Financial Ratios and Metrics :
You can calculate key financial ratios directly in the DataFrame.

```
python
# Calculate OPM (Operating Profit Margin)
data['OPM (%)'] = (data['Operating Profit'] / data['Sales']) * 100

# Calculate ROCE (Return on Capital Employed)
data['ROCE (%)'] = (data['Operating Profit'] / data['Capital Employed']) * 100

# Preview the new columns
```

```
data[['Company', 'OPM (%)', 'ROCE (%)']].head()
```

7. Forecast Future Trends :

Using forecasting techniques like Prophet for sales or profit projections.

```
python
!pip install prophet

from prophet import Prophet

# Prepare data for forecasting
forecast_data = data[['Year', 'Sales']].rename(columns={'Year': 'ds', 'Sales': 'y'})

# Build the model
model = Prophet()
model.fit(forecast_data)

# Predict future sales
future = model.make_future_dataframe(periods=5, freq='Y')  # 5 years into the future
forecast = model.predict(future)

# Plot the forecast
model.plot(forecast)
plt.title('Sales Forecast')
plt.show()
```

8. Risk Analysis :

Perform basic risk assessment, such as identifying trends in debt-to-equity ratios or cash flow volatility.

```
python
# Debt-to-Equity Ratio
data['Debt-to-Equity Ratio'] = data['Total Debt'] / data['Equity']

# Visualize Risk (Debt-to-Equity Trend)
sns.lineplot(data=data, x='Year', y='Debt-to-Equity Ratio', hue='Company')
plt.title('Debt-to-Equity Ratio Trend')
plt.show()
```

9. Save the Processed Data :

Export the cleaned and analyzed data for further use or reporting.

```
python
# Save the processed data
data.to_excel('processed_data.xlsx', index=False)
from google.colab import files
```

```
files.download('processed_data.xlsx')
```

10. Automate Reports with Visualizations :

You can combine all findings into a single report or a set of charts using Python libraries like matplotlib or Plotly

```python
python
# Generate a dashboard-style plot
plt.figure(figsize=(12, 6))
plt.subplot(1, 2, 1)
sns.barplot(data=data, x='Company', y='Sales')
plt.title('Sales by Company')
plt.subplot(1, 2, 2)
sns.barplot(data=data, x='Company', y='ROCE (%)')
plt.title('ROCE by Company')
plt.tight_layout()
plt.show()
```

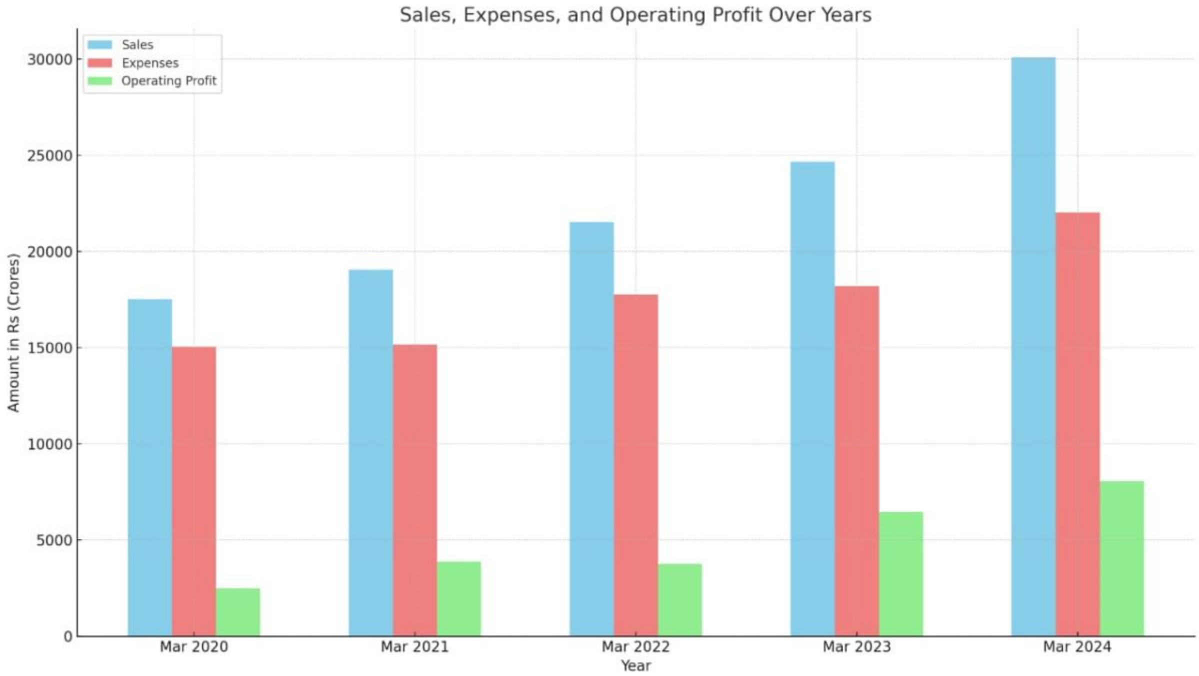
Advantages of Using Google Colab

1. Free and Cloud-Based: No need to install software locally.
2. Interactive Analysis: Supports live coding and visualizations.
3. Scalability:Can handle larger datasets using cloud resources.

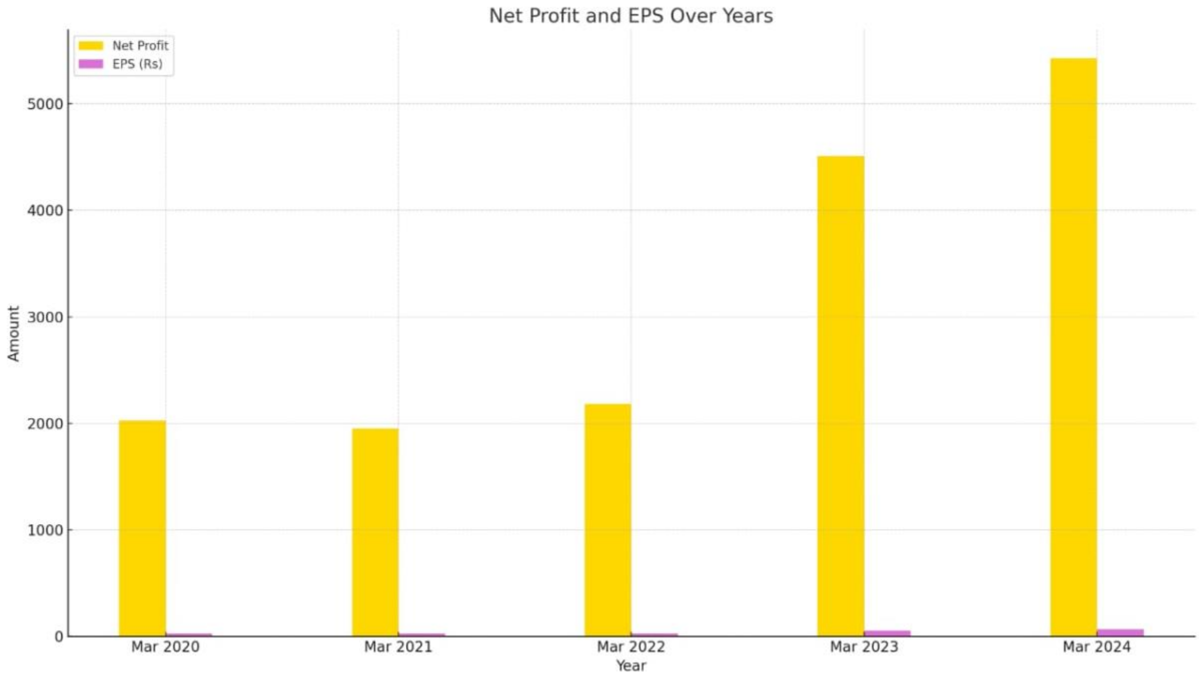
9. RESULTS

DATA VISUALIZATION :

PROFIT AND SALES OF THE COMPANY :

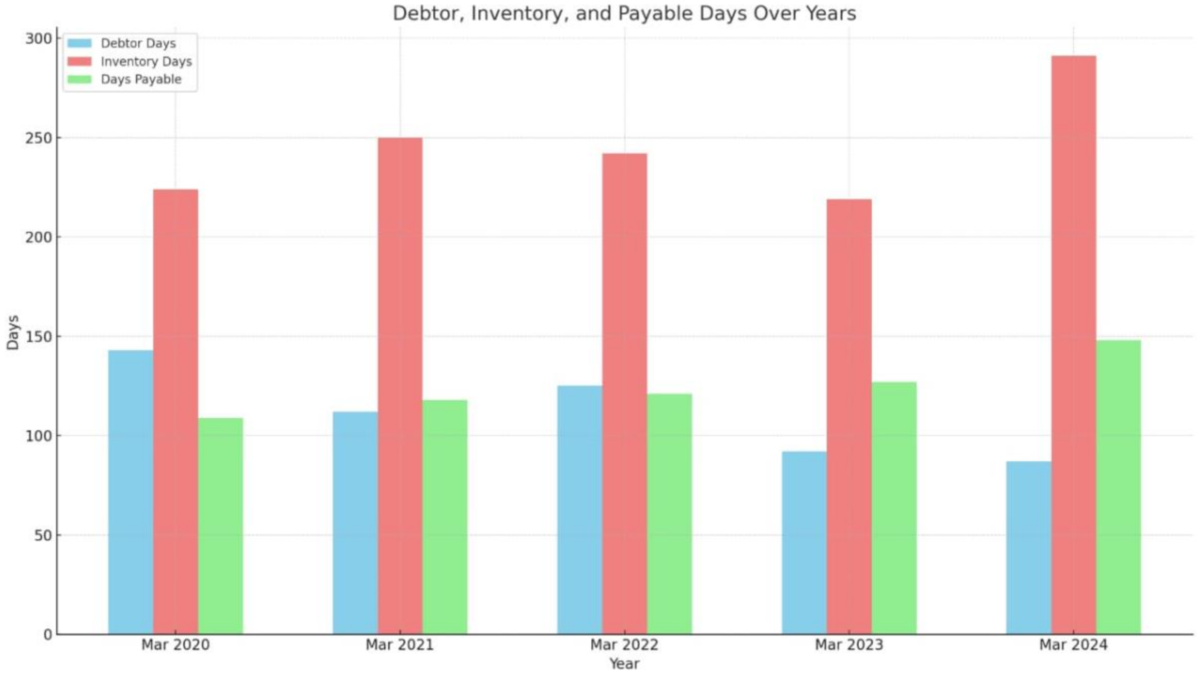


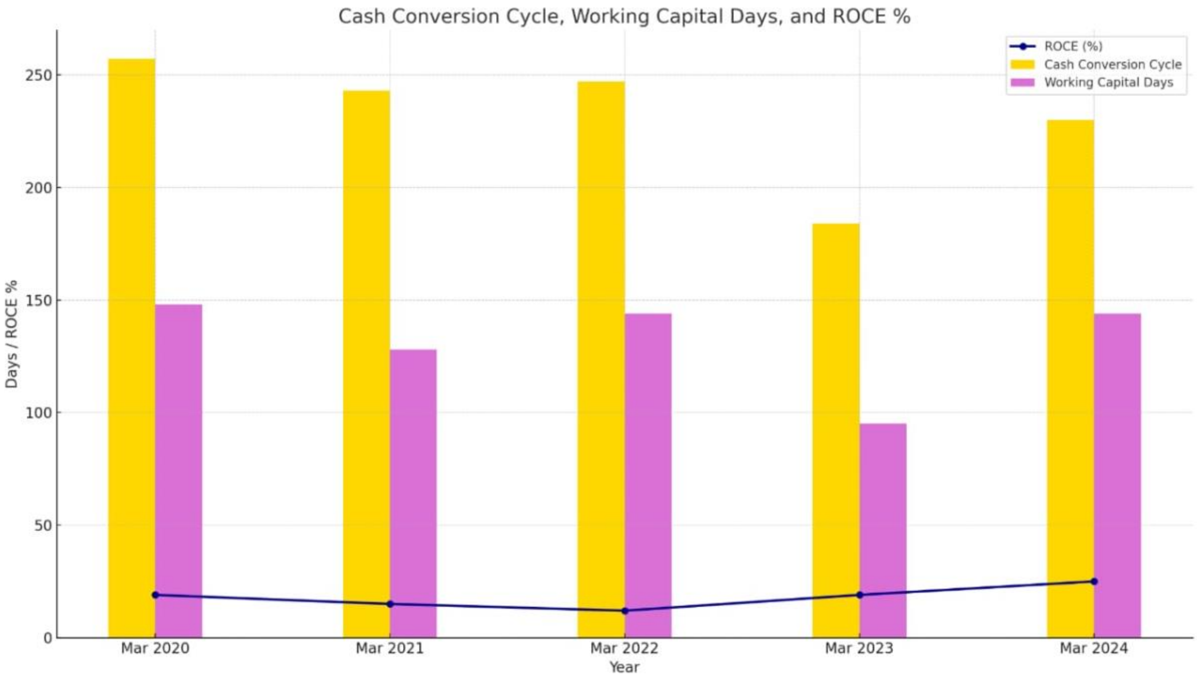
Graph compares Sales, Expenses, and Operating Profit over the years 2020 to 2024.



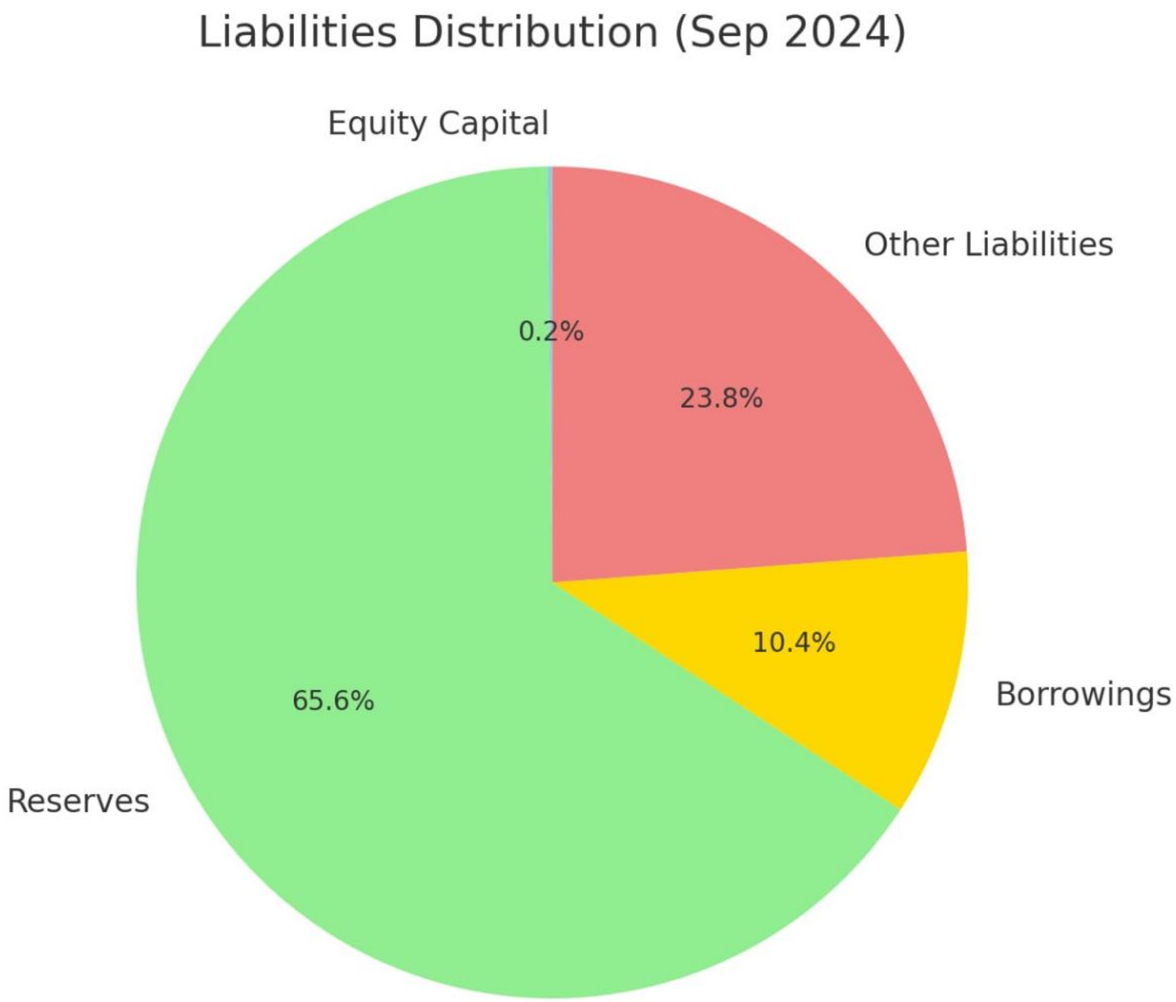
Graph displays Net Profit and EPS (Earnings Per Share) for the same period.

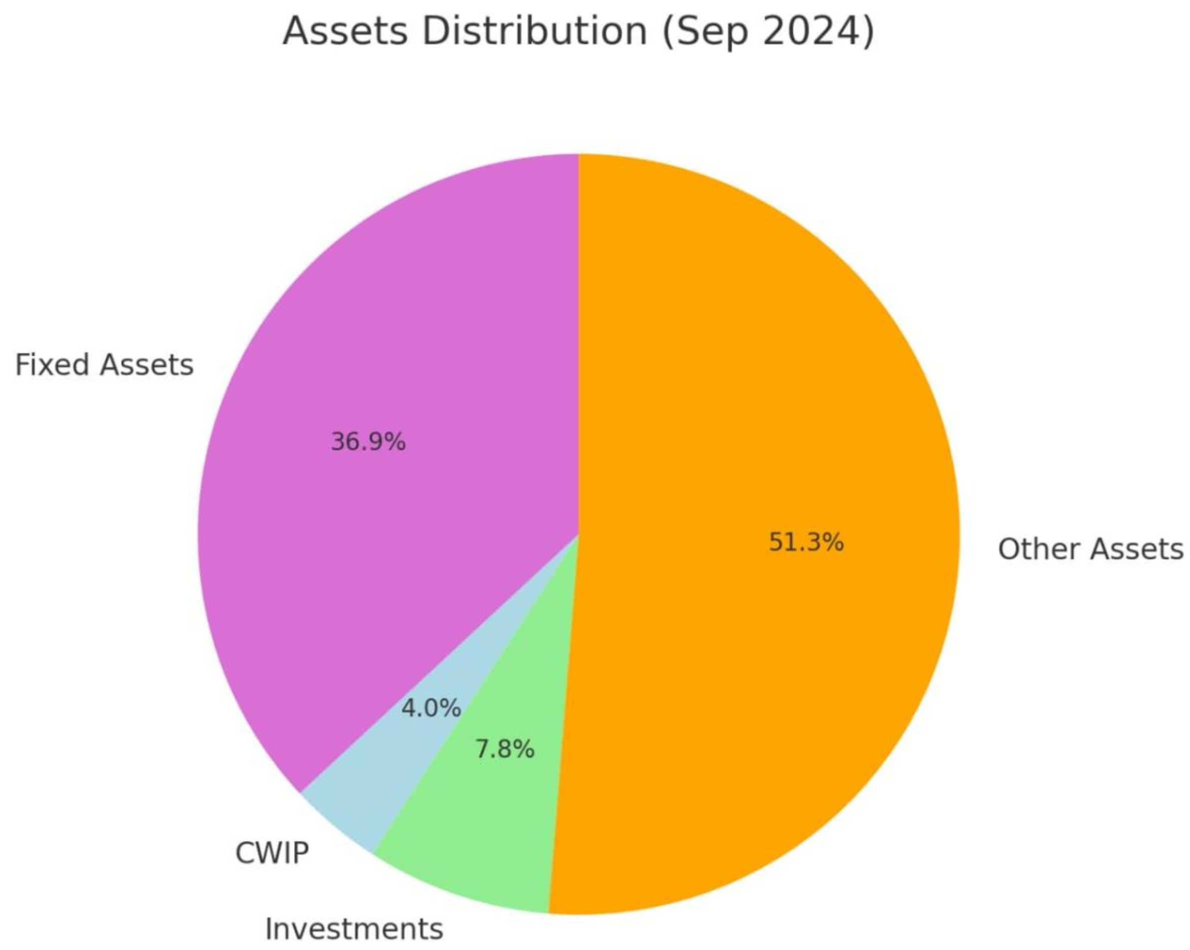
RATIOS OF THE COMPANY :





BALANCE SHEET :




Assets Distribution (Sep 2024)
Fixed Assets
36.9%
51.3%
Other Assets
4.0%
7.8%
CWIP
Investments

10. FINDINGS AND SUGGESIONS

FINDINGS :

From the project study the following conclusions are drawn :

Findings:

- **Sales Growth:** Sales have consistently grown from 2020 to 2024. Between March 2020 and the projected figures for September 2024, sales are estimated to increase from ₹17,517 crore to ₹8,038.2 crore12. This indicates a positive trend and robust business growth.

- **Operating Profit Margin (OPM):** OPM saw fluctuations between 2020 and 2024. While it dipped significantly in March 2021, it recovered well in the following years. The projected OPM for September 2024 is 26%, indicating a healthy profitability level34.

- **Net Profit:** Net profit has generally increased over the period, showcasing the company's ability to generate profit after accounting for all expenses and taxes. From a net profit of ₹2,026 crore in March 2020, it is projected to reach ₹1,255.7 crore by September 2024

- **Return on Equity (ROE) and Return on Capital Employed (ROCE):** Both ROE and ROCE demonstrate the company's efficiency in utilizing shareholder and investor funds. While both metrics experienced dips in the earlier years, they recovered and show positive figures in 2023 and 2024, indicating improved capital utilization and profitability

- **Cash Flow:** Cash flow from operating activities has remained positive throughout the period, reflecting the company's ability to generate cash from its core business operations. Cash flow from investing activities has been negative, indicating investments in assets and acquisitions for future growth

SUGGESTIONS :

- **Maintain Sales Momentum:** The company should focus on strategies to sustain its sales growth trajectory. This might involve expanding into new markets, developing new products, or enhancing existing product lines.

- **Optimize Operating Efficiency:** While OPM has been generally healthy, efforts to streamline operations and manage expenses effectively can further boost profitability.

- **Strategic Investments:** The negative cash flow from investing activities suggests ongoing investments. The company should prioritize investments with strong potential for future returns, ensuring efficient capital allocation.

- **Focus on R&D and Innovation:** The pharmaceutical industry is dynamic and competitive. Continued investment in research and development is crucial for Dr Reddy's Labs to maintain a competitive edge by developing innovative products and therapies.

- **Monitor Market Trends:** Stay abreast of evolving market trends, regulatory changes, and competitor activities to adapt business strategies proactively.

11. CONCLUSION

- **Sales vs. Expenses**
  - Trend: Sales have consistently increased every year, showing robust growth, especially from 2023 to 2024, with a sharp jump from 24,670 to 30,085.
  - Expenses: While expenses have also increased, the growth in sales outpaces the growth in expenses, which is a positive indicator of efficiency and profitability.

  - **Operating Profit**
  - Steady Increase: Operating Profit shows significant growth, particularly from 2022 to 2024 (from 3,768 to 8,061), indicating that the company is effectively managing its costs relative to revenue.
  - Improved Margins: Operating Profit Margin (OPM %) has risen from 14% in 2020 to 27% in 2024, demonstrating improved operational efficiency and profitability.

  - **.Net Profit**
  - Growth: The Net Profit has more than doubled from 2022 (₹2,182 Cr) to 2024 (₹5,425 Cr), showcasing strong financial performance.
  - Tax Impact: The fluctuation in tax percentages (e.g., -7% in 2020 to 25% in 2024) could indicate tax benefits in earlier years that later normalized.

  - **EPS (Earnings Per Share)**
  - Upsurge: EPS has risen from ₹24.38 in 2020 to ₹64.00 in 2024, reflecting increasing shareholder value and profitability per share.

  - **Dividend Payout**
  - Declining Trend: Dividend Payout Ratio has decreased from 21% in 2020 to 15% in 2023. This might indicate the company is reinvesting more profits into growth rather than distributing them as dividends.

  - Key Takeaways
  - Business Growth: The company is growing consistently, with strong sales and profits.
  - Operational Efficiency: Higher OPM % reflects effective cost management.
  - Shareholder Value: Increasing EPS shows that shareholders are benefiting from the growth.
  - Reinvestment Focus:
  - Lower dividend payout suggests the company priotize long term investments.

  - Debtor Days have decreased steadily from 143 in 2020 to 87 in 2024, indicating improved receivables management.
  - Inventory Days peaked in 2024 (291), showing higher inventory levels or slower inventory turnover.

- Days Payable increased from 109 in 2020 to 148 in 2024, reflecting extended payment terms with suppliers.

- Cash Conversion Cycle, Working Capital Days, and ROCE:
- The Cash Conversion Cycle saw a dip in 2023 (184) but rose again in 2024 (230), potentially due to higher inventory days.
- Working Capital Days fluctuated but returned to 144 in 2024, the same as in 2022.

- ROCE (Return on Capital Employed) improved significantly, from 12% in 2022 to 25% in 2024, showing better efficiency in generating returns on investments.

  - The company is well-capitalized with significant reserves and low reliance on borrowings.
  - Investments in fixed assets and a substantial portion of other assets highlight growth and operational capabilities.

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