FINAL REPORT

FAC102

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Lead Company : Dr. Reddy's || **Peer Companies:** Cipla & Divis

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Declaration

"Our group certifies that this project is a result of our effort. Further, no part of this project has been plagiarised from the internet or the annual report of the company. We understand that if our report is found to be plagiarized, all members of the group will be awarded zero marks in the project report component and may be awarded F grade overall."

BACKGROUND

'Good Health Can't Wait' are the simple words that help in describing the deep-rooted belief of DR. REDDY.DR. REDDY has divided its motto in two parts where they express that how **GOOD HEALTH** is their main goal and **CAN'T WAIT** is an expression which reflects our commitment to act with speed to find innovative solutions that address the unmet needs of patients, and to accelerate access to much-needed medicines for people around the world. These simple words used by Dr Reddy's motto help in speaking and elaborating the most profound truths. **Dr K Anji Redd**y a scientist, philanthropist and entrepreneur had the most unique vision where he wanted to start something which others felt was a barrier to tackle. **10 years after sowing his seed into the world of pharmaceuticals DR. K Anji REDDY in 1984**, decided to strike out on his own and established Dr Reddy's Laboratories and acquired chemisorb Drugs an existing bulk drug manufacturing company. The main aim of Dr Reddy laboratories is to **make the medicines available to a large scale of people**. A 25-year-old company catering to the needs of the pharmaceutical industry had the main aim to first **make the medicines available and affordable.** They are considered to be the best employer in the Indian pharmaceutical industry and the 5th best among other big companies. **The no-boundaries platform designed based on customers' insights and feedback,** is a huge step forward in providing an advanced customer experience and facilitating collaboration. **Customers are now able to manage the whole business process in real time, from ordering samples to submit and track their orders, but also to closely interact with Dr Reddy's interdisciplinary support team and much more**. Their main goal is to target **the emerging markets**. The purpose behind this is to expand and also to **reduce the burden of production on a single region**. Depending on a situation expanding margin has different impacts on the profit and growth. Even during the COVID-19 situation the share value of Dr Reddy was **up by 5.7%** in the month of May and it suggests that the future will clearly tell as to how these mergers would be effectively used.

NATURE OF ITS OPERATIONS

Dr. Reddy's operates smartly and peculiarly by **creating teams that can work very efficiently and plan and manage all everyday activities in manufacturing, assembling, quality control & guarantee, warehouse and engineering.** Branded and generic finished dosage forms, bulk active pharmaceutical ingredients, custom chemicals, critical care and biotechnology products are the different types of products manufactured. The Company operates chiefly in three segments: Global Generics, Pharmaceutical Services and Active Ingredients (PSAI), and Proprietary Products. Moreover, they encourage **patient-centric innovation, which is a no-limits platform devised based on customers' experiences and feedback. This is a breakthrough in providing not only a better customer experience, but also promoting collaboration. Customers currently can track their orders as well as closely interact with Dr. Reddy's assistance groups** anywhere across the globe. Their prime markets include - USA, India, Russia & CIS countries and Europe. **Their strategy is to limit reliance on any single region. Hence, they're always on the lookout for opportunities and prioritise emerging markets and India, particularly as they believe development would essentially be through organic means.** They regulate the entire supply chain and ensure that quality is being preserved at each phase of the supply by fixating on refining processes and annihilating all non-value-adding efforts like **transportation time. A recent initiative has been taken up by them to get their Business Partners to think about setting up their services in the proximity of their operations, for the sake of sustainability. Moreover, this saves them expense, boosts their efficiency and leads to a significant reduction of the carbon footprint.**

FAMOUS PERSONALITY IN TOP MANAGEMENT

G. V. Prasad is currently the co-chairman and managing director of Dr. Reddy's Laboratories. He oversees the core team at Dr. Reddy's, which has tremendously advanced its transformation from a medium-sized domestic enterprise into a global pharmaceutical corporation. As a result of taking over full-time as the CEO in 1990, he has led the organisation onto a path of perpetual growth; making the revenues shoot up from $50 million to $2.5 billion. Prasad's accentuation on research, innovation, business ethics and limited corporate structures has contributed in shaping Dr. Reddy's into what it is now -an organization of worldwide reputation, renowned industry-wide for its scientific creations, evolved practices of people and exceptional administration of the company.

ANALYST REPORT

Dr. Reddy's position in managing its assets is improving significantly. Especially in the last two years, the Return on Asset has been increasing although, in spite of the fact that the world has entered into a global lockdown and according to the world bank, the global economy will plunge by 5.2% with so much at stake, Dr. Reddy has proven to be very **effective in managing its operations**. Due to changes in USFDA policy, Dr. Reddy has been able to increase sales in base products like global generics and it also gained a significant market share in key products which led to a growth of 8% over the previous year. Thus making the best use of the opportunity. This could only be achieved through **leadership in chosen spaces.** The cost of generic drugs is kept reasonably low which was only possible because of its **operational excellence and sustainable logistics** through which they could cut down on transportation cost by looking for business partners closer to the site of operations which has been proved to be very effective and cost efficient. Another key strength of Dr. Reddy is it's **liquidity**. By analysing the cash flow statements, we can see that the company has been significantly repaying back the short term as well as the long term debt. This shows that the company is performing really well. Dr. Reddy's R&D spending and **Return on R&D** seems to be very effective, since they were the first to launch the Biosimilars (rituximab) in 2007. Biosimilars are very sophisticated drugs and are very rare in quantity, but Dr. Reddy already has an **early mover advantage** on this product with 4 branded biosimilars already in the market. This is just the tip of the iceberg, Dr.Reddys has achieved a lot yet it won't stop there and will keep soaring to new heights.

FUTURE INDUSTRY OUTLOOK

Projected Market Growth
From a market size of USD 12.6 billion in 2009, the Indian pharmaceutical market is expected to grow USD 100 billion by 2025, with the potential to reach USD 125 billion in an aggressive growth scenario.This expansion has been largely on account of enhancing medical infrastructure and rising income levels have supported this growth. The current industry growth is at 9% to 10%, which is an extremely healthy growth.

Growth Avenues
Indian pharmaceutical industries export to the US will witness a huge leap as branded drugs worth $55 billion will get off patent in the years to come. And also with the recent changes in US Food and Drug Administration (USFDA) to accelerate access to lower-cost generic drugs have opened new avenues for Indian pharmaceutical companies to take over the US market. COVID-19 will be a big opportunity for indian pharmaceutical industries, they are strategically in a better position to make the best use of this opportunity. Recent alliances of indian pharmaceutical companies with international companies to develop the vaccines for the virus has been a huge advantage for indian companies.

Government Interventions
The government is keen on fostering an investor-friendly market for pharmaceutical drugs, tax benefits could be awarded to companies in the form of capital gains, technology transfers, and even competitive tax breaks on R&D investments.
Furthermore, the establishment of a Union Ministry of Pharmaceuticals by the government would go a long way in seaming the productivity of the pharmaceutical sector in India.
The Government can make a straightforward, simple, and cognizant administrative strategy which will decrease the vulnerability with respect to evaluating and medication endorsement measures. Likewise bringing down the recurrence of strategy updates or setting up a periodical audit structure can help settle disarray and restore the trust of pharmaceutical organizations towards the smooth functioning of the overall dynamics of the industry.

Competitive Threat
Dr. Reddy is facing strong competition from Divis laboratories, which has become the second most valuable listed pharmaceutical company with share price rising 65% so far in 2020. Growth of peer companies like Cipla and Divis Laboratories in emerging markets is being driven by market expansion.They are not only expanding its reach but also building new service lines such as hospitals and other business verticals that largely work on a business-to-business (B2B) model. Whereas Dr. Reddy's presence in the emerging market is less influential when compared to its competitors.

Investments made by the company

Dr. Reddy has made variety of acquisitions through the years.It acquired American Remedies on November 6, 1999 at Rs 90 million which pushed Dr. Reddy's to the fifth rank in domestic formulations market and BMS Laboratories ltd in 2002.On may 7, 2004 it acquired Trigenesis Therapeutics, a US based dermatology at $11million which gave Dr. Reddy a jumpstart into the one speciality drugs segment.On march 3, 2006 it acquired Betapharm Arzneimittel within the German market at 480 million Euros. This has led the eu market to be amongst the main markets for Dr. Reddy.It also acquired UCB, a worldwide biopharmaceutical company headquartered in Brussels at Rs800 crore, this acquisition of UCB's existing brand equity within the areas of dermatology, respiratory and paediatrics diseases will further expand Dr Reddy's therapy footprint into these fast growing areas.

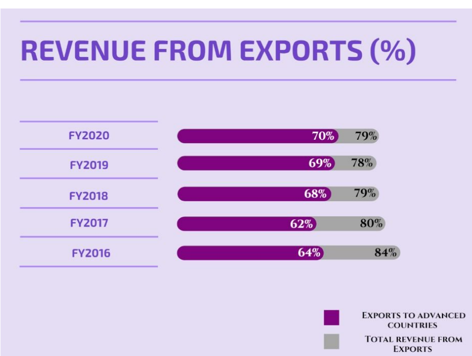
Dr Reddy's Laboratories have also been successful in securing the acquisition of select divisions of Wockhardt's marked generics business in India and a pair of other worldwide regions — namely, Nepal, Sri Lanka, Bhutan and within the Maldives. The reason behind the acquisition is Dr. Reddy's keen interest in penetrating the south asian emerging market which is predicted to triple it's growth within the next 5 years. Thus Dr. Reddy would be reaping the advantages from these emerging markets because it did by acquiring the German based company back in 2006.

OPERATING METRICS

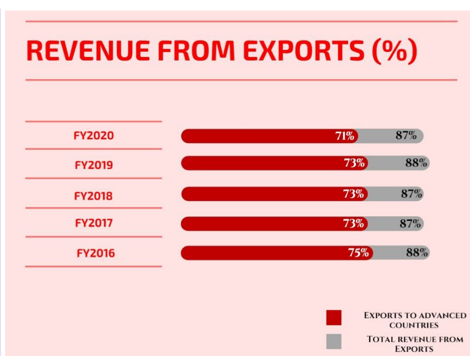
Percentage of Revenue from Export

Percentage of revenue from export essential serves to show us the percentage of revenue generated from each of the markets for example, advanced markets which includes USA and Europe, emerging markets which includes latin america, china, brazil, etc. A major part of their revenue comes from export of generic drugs.

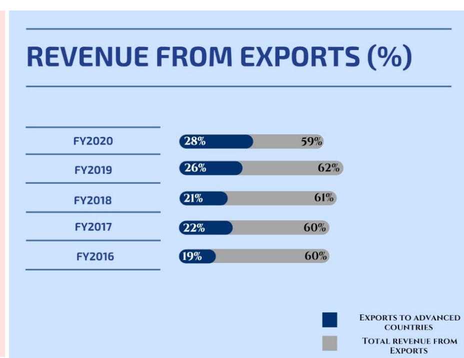
<u>LINKAGE</u>: The companies measure their operation by keeping a close eye on the percentage of revenue generated from different markets and economies around the world. Through this analysis the company will have a fair idea about how well they are performing in a particular market and thus will be able to make better decisions in regards to how they want to expand their business in different markets and what strategies they should use.



Dr. Reddy's



Divi's

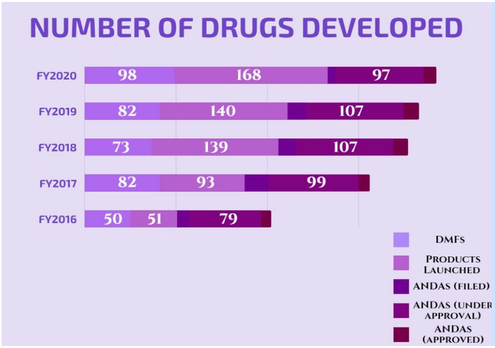


Cipla

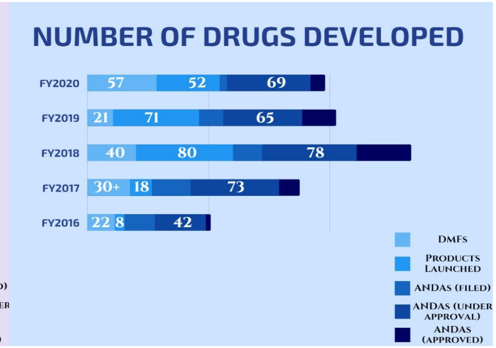
Number of Drugs

Number of Drugs developed is bringing the total number of new compounds with proven therapeutic effects on the market. The drug organizations have licenses on drugs which secures drug items so organizations can recover the costs that they at first put in the R&D of the medication. Active pharmaceutical ingredients for which a Certificate of Suitability(CEP) has been permitted are suitable for use in medicinal products. An abbreviated new drug application (ANDA) has to be filed which is then submitted to the FDA for assessment and potential approval of a generic drug product. Once approved, the petitioner may manufacture and market the generic drug product. The time between the initial application and approval of ANDAs averaged approximately 19 months, with a considerable year-to-year variation. So, CEPs are filled for quick approval of ANDAs.

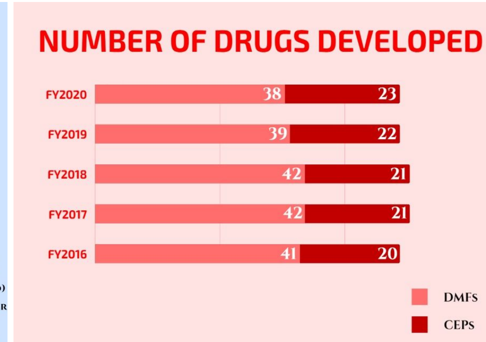
<u>LINKAGE</u>: Generic drugmakers typically file an ANDA when the patent protection period of a brand-name drug is about to expire. Subsequently, the news of an ANDA filing can cause the share price of a brand-name drugmaker to drop and the share price of a generic drugmaker to rise, creating a new revenue opportunity for the latter. If a firm acquires an early approval, it will probably try to earn a positive return on its application-related costs, whereas the firms which get their approvals later in the process are most likely not to recover their sunk costs. So a larger number of ANDAs and DMFs filed are often considered more authentic in terms of quality, regulatory standing and ability to meet CGMP (Current Good Manufacture Process) requirements.



Dr. Reddy's



Cipla

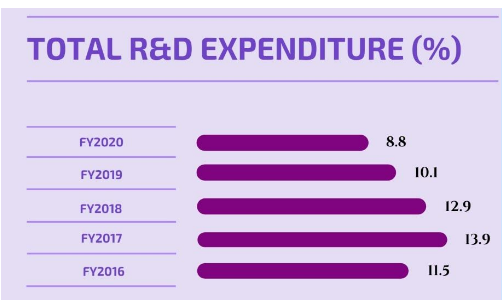


Divi's

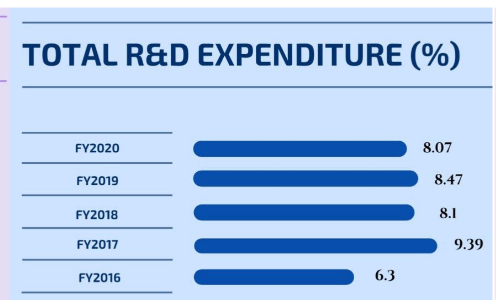
Research and Development

Research and development is a very critical part of pharmaceutical industries. The process begins after an initial potential drug is identified and encompasses a rigorous test that determines the therapeutic feasibility.

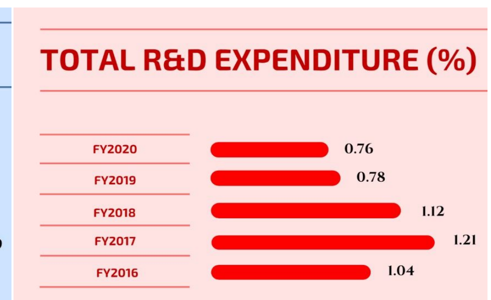
LINKAGE: R&D return is a very important metric to effectively measure the proportion of profits that are generated from R&D spending in a previous period, such as the past year or so. This metric helps us to determine whether a firm is generating profit from new R&D spending or not. It also gives the investors a sense of understanding in regards to R&D investments contributing to the financial profitability of the company.



Dr. Reddy's



Cipla



Divi's

ABRIDGED BALANCE SHEET

Particulars	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
Current Assets	3807.8	3739.5	2635.8	3036.7	2524.3
Non-current assets	11487.5	9373.2	9744.6	9152.5	10672.1
Current liabilities	4180.5	3079.3	4719.9	4258	4388.8
Non-current liabilities	11114.8	10033.4	7660.5	7931.2	8807.6
Stockholders' equity	15191.9	12684.1	11807.8	11600.6	12078.4

The stockholders equity of the company has increased recently because of the profits increasing and the company holding sufficient profits with general reserve to be used later to invest in R&D . The current ratio of the company has remained in the range of 1.55 to 2.21 which is fairly ideal for a pharmaceutical company but can be better because it looks like the company is shifting to leaning a lot of long term debt financing rather than short term. The quick ratio though fluctuating has been in the range of 1.94 to 2.82 which is ideal. There has been an increase in the acquisition of non current assets which probably explains the increase in debt financing ,but it was important due to the fact that after FDA investigation in fy16 the company needed to work on its infrastructure . over all the company's growth seems to be organic .

MULTI-STEP INCOME STATEMENT

Particulars	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
Net Sales	11850.4	10625.5	9359.3	9719.8	10291.9
COGS	11023.1	10502.3	9276.5	9607.4	10033.1
Gross Profit	826.9	123.2	82.8	112.4	258.8
Total Expenditure	8980.8	8360.9	8086.7	8041.2	8226.6
Operating Profits	3612.8	2538.1	1533.9	2336.8	2390.2
EBIT					
Depreciation	789.2	780.6	774.1	735.1	649.5
Profit Before Tax	2775.8	1700.7	697	1544.5	1676.6
Rent, Rates and Taxes	48.9	49.1	38.2	50	35.7
Net Income	2042.3	2141.4	1189.8	1566.2	1806.5

Revenue: FY2017 primarily due to economic problems in Russia and other CIS countries. Also, due to new competitors launching these drugs and pushing prices down. There was a rapid increase of 12.2% in FY2020 as there was an expansion of the base business and launch of new products.
Expenses: They made good progress to trim cost structures through enhanced productivity, operating activities streamlining through hr decisions like self managed teams and elimination of waste across businesses. There was an increase of 2.74% in FY2019 and an increase of 6.2% in FY2020 due to a sudden increase in miscellaneous expenses and selling and distribution expenses.

CASH FLOW

Particulars	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
Net Cash Flow from Operating Activities	1839.2	2762.1	1538.6	1015.9	2746.9
Net Cash Flow in Investing Activities	-1689.2	-550.9	-1179.9	1442.5	-1909.8
Net Cash Flow from Financing Activities	-224.1	-2223.1	-304.4	-2581.8	-693

Net Inc/Dec in Cash and Cash Equivalents	39.1	113.2	120.7	66.7	202.1

Cash Flow from Operating Activities
Change in the operating activities occur due to the change in the working capital. The operating activities rise when there is either increase in current assets or decrease in current liabilities. Similarly, the operating activities fall when there is either decrease in current assets or increase in current liabilities.

YEAR	OPERATING ACTIVITIES	CURRENT ASSETS	INCREASE/DECREASE IN CURRENT ASSETS	CURRENT LIABILITIES	INCREASE/DECREASE IN CURRENT LIABILITIES	NET EFFECT ON OPERATING ACTIVITIES
2016	2746	168.60		4218.20		
2017	1015	186.50	+17.9	4049.60	-168.60	DECREASE
2018	1538	437.90	+251.4	4546.50	+496.9	INCREASE
2019	2762	513.10	+75.2	2894.60	-1651.9	INCREASE
2020	1839	684.50	+171.4	3973.20	+1078.6	DECREASE

(ALL FIGURES ARE IN RS CRORES.)

Cash Flow from Financing Activities
After analysing the cash flow from financing activities for the last 5 years, it can be inferred that the company has a negative cash flow due to few possible reasons. Through the statement it could be noticed that the company has spent the three years of its operations since 2016 to repay its short term loans, only in the year 2018 and 2020 the company had taken a short term loan. Through this we understand that the company will be quite appealing to creditors due to its ability to repay loans. Apart from short term loan repayment, there is another significant line item which is repayment of long term loans, the company seems to have repaid a massive amount in the year 2017 and 2020. Overall the company seems to be able to repay back its liabilities which is a healthy sign of growth. In the year 2017, Dr. Reddy went for a share buy back which led to a massive difference of CFF when compared to previous year. The equity dividend and preference paid by the company has a similar trend of declining when the last five years are compared; this could be because the company is expecting an opportunity to invest in the company for the purpose of future growth and expansion. The company should expect a stability in the years to come, since it is in a good position because the company is not taking any fresh loans thus it says that CFO is enough to suffice the company's needs and also through the dividend practice we can see that the company is reducing its dividend payment because it saw new emerging avenues to grow, thus diverting it's resources.

Cash Flow from Investing Activities
Through analysing Dr. Reddy's CFI for the last five years, it tells us that the amount has been negative for most of the years. This clearly shows us that the company has been trying to expand its business operations. The largest investment made by the company is mostly on it's non-current tangible assets or it's capex which is primarily their property plant and equipment. The company also made acquisitions in certain companies like Teva Pharmaceutical Industries Ltd and an affiliate Allergan plc, both US based companies in 2016. Alongside investing in tangible assets, the company has also purchased investments over the years. Other significant line items through which the company saw an inflow of cash is selling its investment. After thorough analysis we can conclude that Dr. Reddy is still in phase and the company is currently not sure about its probable avenues for future investments because of the number of investments it made in different other companies through acquisitions which could also mean that the company is trying to enter a market or strengthen its current position in the market.

Cash Flow Statement Analysis

Net Effect of the cash flow statement : Net effect means the ability of the firm to cover CFF and CFI from its CFO. To measure net effect, **Net Effect = CFO + CFI + CFF**

YEAR	CFO+CFI+CFF	NET EFFECT
FY16	1839.2 - 1689.2-224.1	-74.1
FY17	27621.1- 550.9-2223.1	24847.1
FY18	1538.6 -1179.9-304.4	54.3
FY19	1015.9+1442.5-2581.8	-123.4
FY20	2746.9-1909.8-693	144.1

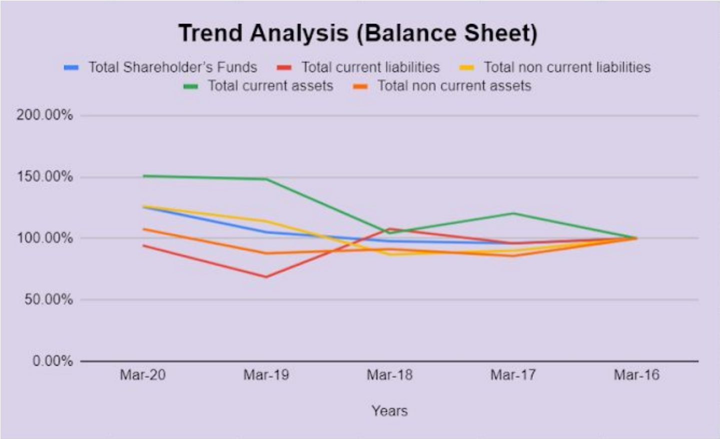
After analyzing the cash flow from all the three activities operating, investing and financing of this entity, it can be concluded that the cash generated from operating activities is not enough to meet CFI and CFF requirements. There has been a significant trend of declining CFO since 2016 to 2020 although numbers have been positive. The CFI seems favourably to the benchmark and it also indicates a growing entity with a negative CFI and a positive CFO.When analysing the CFF, a negative CFF is acceptable only if the CFO is positive. CFO could not suffice for the CFI and CFF which may indicate that the entity could not afford the growth. This analysis therefore indicates that the entity is in the maturity stage and the characteristics of a mature entity may apply to Dr. Reddy.

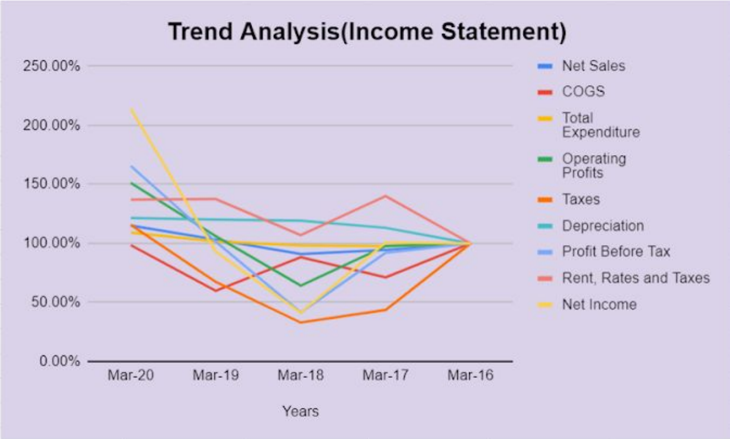
TREND ANALYSIS

Balance Sheet	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
Total Shareholder's Funds	125.78%	105.01%	97.76%	96.04%	100.00%
Total current liabilities	94.19%	68.62%	107.78%	96.00%	100.00%
Total non current liabilities	126.20%	113.92%	86.98%	90.05%	100.00%
Total current assets	150.85%	148.14%	104.42%	120.30%	100.00%
Total non current assets	107.64%	87.83%	91.31%	85.76%	100.00%

Income Statements	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
Net Sales	115.14%	103.24%	90.94%	94.44%	100.00%
COGS	98.46%	59.78%	88.26%	71.21%	100.00%
Total Expenditure	109.17%	101.63%	98.30%	97.75%	100.00%
Operating Profits	151.15%	106.19%	64.17%	97.77%	100.00%
Taxes	115.71%	67.38%	33.02%	43.66%	100.00%

Depreciation	121.51%	120.18%	119.18%	113.18%	100.00%
Profit Before Tax	165.56%	101.44%	41.57%	92.12%	100.00%
Rent, Rates and Taxes	136.97%	137.54%	107.00%	140.06%	100.00%
Net Income	213.76%	92.94%	41.25%	100.71%	100.00%





Trend analysis balance sheet

The total debt fell in FY 17 and 18 because perhaps that was the years in which the company paid back lots of its dues. The increase in FY20 to 126% shows the company's relying on debt financing more than it was before. Total current assets increased drastically from fy18 to fy20 because of the increase in NetSales. The total shareholders fund decreased in fy17 and 18 because dividends were last paid then and in fy20 the shareholders fund is around 125% because there are accumulated profits the company plans to use for research and development in future.

Trend analysis income statement

As you can see from the line graph the net income hit low in fy18 because the company was facing huge operating expenses due to lack of operating efficiency and after dr. Reddy's solved that with their self-managed teams and highly productive work stations, the net profit skyrocketed by fy20. That's why there Is a similar trend between operating profits and net income. The rate of depreciation has been more or less the same and net sales as we can see has an organic growth.

COMMON SIZE ANALYSIS

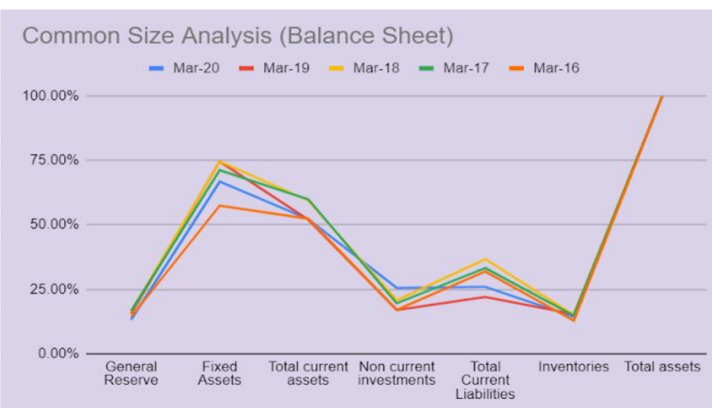
Balance Sheet	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
General Reserve	13.27%	15.48%	16.39%	16.65%	14.35%
Fixed Assets	66.79%	74.53%	74.50%	71.17%	57.43%
Total current assets	52.22%	52.00%	59.41%	59.84%	52.38%
Non current investments	25.56%	17.01%	20.81%	19.60%	17.09%
Total Current Liabilities	25.97%	22.07%	36.72%	33.22%	31.96%
Inventories	14.32%	15.37%	14.99%	14.84%	12.87%

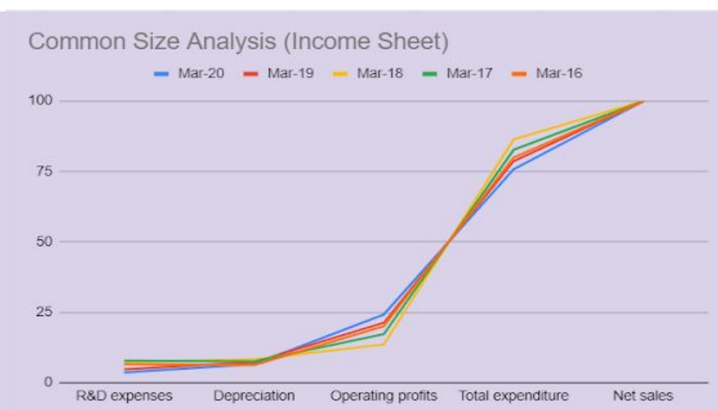
Total assets	100%	100%	100%	100%	100

Common size balance sheet analysis
It can be seen that in all the five years the fixed or non current assets contribute the most because, from laboratory estate to clinical equipment, fixed assets are very important to pharmaceutical companies. The non current or long term investments have seen a significant growth in contribution margin. Maybe because FDA investigations in 2016 have found issues with Dr.Reddy's **warehouse equipment malfunctioning, inappropriate storage of products and a records system that was out of order. So the company had to invest more to correct this.**

Income statement	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
R&D expenses	3.63	4.784	7.45	7.83	6.67
Depreciation	6.65	7.34	8.27	7.56	6.31
Operating profits	24.21	21.31	13.59	17.26	20.06
Total expenditure	75.78	78.68	86.40	82.73	79.93
Net sales	100	100	100	100	100

Common size income statement analysis
As we can see the total expenditure is a huge contributing factor because the company has high operating and R&D expenses , which is justified because for a pharmaceutical company it's a norm. The operating profits have a considerable and drastic increase after fy18 because the operating efficiency was streamlined by the company management in FY18.





DUPONT ANALYSIS

ROE= ROS * Asset turnover * Financial leverage (due to the negligible amount of interest expenses , de-leverage net income is taken the same as net income)

Dr. Reddy's	2020	2019	2018	2017	2016
ROE	15.12%	7.53%	8.33%	11.65%	10.66%
ROS	19.11%	8.77%	10.51%	14.35%	13.19%

Asset turnover	77.60%	82.39%	75.51%	75.69%	77.80%
Financial Leverage	101.90%	104.08%	104.96%	107.20%	104.54%

Cipla	2020	2019	2018	2017	2016
ROE	12.68%	11.23%	9.08%	3.93%	9.23%
ROS	16.03%	13.28%	11.10%	04.58%	11.25%
Asset turnover	77.88%	83.22%	80.28%	84.08%	81.36%
Financial leverage	101.49%	101.59%	101.86%	102.07%	101.75%

Divi's	2020	2019	2018	2017	2016
ROE	18.93%	17.03%	16.91%	22.16%	18.76%
ROS	26.02%	23.29%	25.82%	26.7%5	101.8%
Asset turnover	68.92%	61.87%	52.29%	73.23%	64.08%
Financial leverage	105.54%	118.16%	125.21%	113.32%	115.56%

In FY2017 the ROE of Dr. Reddy's was more than double of Cipla because of Dr. Reddy's higher profit margins or ROS, whereas the ROE of Divis for the same year (2017) is double that of Dr. Reddy's because Divis had a considerably higher profit margin than both the companies.
In FY2018 the ROE of Dr. Reddy's was less than both Cipla and Divis because of lower profit margins and low debt compared to the previous year. Dr. Reddy's Laboratories still has room to increase leverage and operational efficiency, according to 2018 data.
In FY2019 the ROE of Dr. Reddy's decreased even more, whereas Divis and Cipla remained more or less constant. The reason behind Divis' high ROE is also its high rates of financial leverage. Divis has debt as a considerable part of its capital structure, more than Cipla and Dr. Reddy's.
The interesting thing to notice is the jump in ROE in FY2020 of dr. Reddy's as a direct result of an increase in profit margins from 8.77% to 19.11%.
We believe this drastic increase in ROS is because of the increased efficiency of operations through their high-performance workstations and self-managed teams.
Even Though initially set up in 2018, these operational and human resource changes brought about substantial results in 2020(we have written more about it in Strategies that set Dr. Reddy's apart from its peer companies, part of the project).

COMPARATIVE ANALYSIS

	Dr. Reddy's				Cipla				Divi's			
	Mar-20	Mar-19	Mar-18	Mar-17	Mar-20	Mar-19	Mar-18	Mar-17	Mar-20	Mar-19	Mar-18	Mar-17
Net Profit Margin	26.65%	12.16%	6.11%	14.41%	17.67%	14.94%	13.34%	9.17%	26.41%	28.19%	23.36%	25.99%
Inventory Turnover	14.57	15.78	16.30	17.96	10.25	10.25	9.67	8.91	10.48	10.86	9.93	11.31
Quick Ratio	2.55	2.82	1.94	2.02	1.65	1.64	1.09	0.76	1.26	2.36	2.56	2.13

Gross margin	78.43%	80.21%	78.51%	80.40%	84.15%	82.37%	78.75%	80.71%	58.90%	57.33%	60.05%	61.15%
Current Ratio	1.91	2.21	1.55	1.71	3.12	3.15	2.52	2.23	1.55	2.9	3.16	2.67

Net profit Margin
Dr. Reddy's has less efficiency in managing cost control and converting sales into actual profit and is relatively less profitable for an investor against its competitor Divi's. On the other hand, Dr.Reddy's has an advantage over Cipla as it's relatively more efficient in converting sales into actual profit and hence, is more profitable.

Inventory turnover
Dr Reddy Laboratories has a high Inventory turnover average of 16.15. Its competitors have relatively low inventory turnover. Dr Reddy's goods are sold quickly and the company is managing its inventory efficiently as they aren't overbuying and can sell all that they buy.

Quick Ratio
With a Quick ratio average of 2.33, Dr Reddy's laboratories appear to be in a good position to cover its short term obligation when compared to its peer companies. It signifies that the company is fully prepared with sufficient assets to be immediately liquidated to pay off its current liabilities hence, it has a stronger liquidity position in comparison to that of its competitors.

Gross Margin
Dr. Reddy's is successfully making a profit over and above its cost when compared to Divi's but is facing a disadvantage when it comes to Cipla. When compared to Cipla, it's relatively less profitable for an investor since it's unable to generate strong sales prices relative to its cogs.

Current Ratio
Dr.Reddy's has difficulties to pay its creditors or short-term obligations as it's current ratio is much lower than its competitors. One reason for a low current ratio can be if they procure the cash from their customers long before they need to pay their suppliers.

RATIO ANALYSIS

RATIOS	Mar-20	Mar-19	Mar-18	Mar-17
Return on Equity	15.12%	7.53%	8.33%	11.65%
Asset Turnover	0.7760560406	0.8239327504	0.7551201485	0.7569173074
Net Profit Margin	26.65%	12.16%	6.11%	14.41%
Sales Growth	4.96%	13.21%	-3.44%	-4.24%

Asset Turnover Ratio

The asset turnover ratio measures how efficiently a company utilizes its assets in order to generate sales.
As we can see from the table above, the Asset Turnover ratio is almost constant for all four years which means no new product line or service was introduced in these four years.
In FY2019, it went up a little, maybe due to restocking inventory only when needed, increasing hours of operation and spike in sales.

Return on Equity
At times, a high ROE is a good thing if net income is very large compared to equity due to a company's exceptional performance. However, an immensely high ROE is often due to a small equity account compared to net income, which signifies a risk.
In FY2017, there's a spike in ROE as the company's debt to equity ratio was 0.40 compared to 0.26 in FY2016 which indicates that the company had taken on a lot of debt. On the other hand, the spike in FY2020 is due to generation of an increasing profit without needing as much capital i.e operating profit was boosted by increasing sales and/or reducing costs. This was solely possible due to the company's strategy of **creating teams that could work very efficiently and plan and manage all everyday activities in manufacturing, assembling, quality control, warehouse and engineering.**

Net Profit Margin
The net profit margin suggests how much net income or profit is generated as a percentage of revenue. A high net profit margin means that a company is cost-effective at turning sales into actual profit.
In FY2018 there was a dip in the Net profit margin as the Opening Cash & Cash Equivalents declined, maybe due to low prices or overly high costs of goods sold or operating expenses.
We can see that in FY2020 there was an increase in Net Profit Margin as the Service income and COGS was higher. This was obtained by increasing revenues via selling more goods or services or increasing prices, which they achieved by encouraging **patient-centric innovation, which is a no-limits platform devised based on customers' experiences and feedback.**

Sales Growth
Sales growth is the percent growth in the net sales of a business which is recorded by looking at revenue growth by categories such as segments and geographic regions.
In FY2019, there was a sudden boost in the number of sales due to their strategy to limit reliance on any single region. **Hence, they're always on the lookout for opportunities and prioritise emerging markets and India, particularly as they believe development would essentially be through organic means.**
Their cost optimization initiatives also aided them in improving profitability-annihilating all non-value-adding efforts like **transportation time by getting their Business Partners to think about setting up their services in the proximity of their operations, which not only saves them expense but also boosts their efficiency and leads to a significant reduction of the carbon footprint.**
In FY2020, they experienced a dip again due to stringent price controls and growing commonality by new medicine brands being launched in the market.

FINANCIAL PERFORMANCE
Price to Earning Ratio= Market Value per share/Earnings per share

Dr. Reddy's
Market Value per share (as of 16th March 2020)=2889.00
Earnings per share =121.90
P/E RATIO=23.69

Cipla
Market Value per share (as of 16th March 2020)= 418.00
Earnings per share=28.75
P/E RATIO=14.53

Divi's
Market Value per share (as of 16th March 2020)=1950.00
Earnings per share= 51.75
P/E RATIO= 37.68

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Dr. Reddy's	40.46	32.7	64.27	34.44	16.4
Cipla	29.39	49.58	31.83	22.73	14.53
Divi's	24.49	19.56	32.2	33.66	37.71
Sun Pharma	46.64	23.69	56.72	43.14	22.44
Aurobindo Pharma	21.53	17.19	13.47	19.47	8.55
Torrent Pharma	13.08	28.09	31.14	75.73	32.56

Industry Average	**29.265**	**28.46833333**	**38.27166667**	**38.195**	**22.03166667**

FINAL CALL

Evaluating the performance of Dr. Reddy's in contrast to its closest peers which are Cipla and Divis, Dr. Reddy shows more a promising future in terms of higher return. As a company dr. Reddy's has worked on its shortcomings constantly and it translates into their financial accounts . For example, the time in 2016 when FDA took issues with the company, and it invested in plant and machinery and by 2018 streamlined its operating procedures by setting up self managed teams and high performing work stations.

Dr. Reddy's slightly lower PE Ratio in contrast to the average industrial PE Ratio indicates that the shares are undervalued to some extent which makes it lucrative for investors. This is because lower PE Ratios are usually more appealing but than a high PE Ratio, since a lot of risk is involved in high PE Ratio firms. Hence, Dr. Reddy's PE Ratio is placed in the right range in comparison to its peers. Although after analysing the 5 years PE Ratio of Dr. Reddy's, it can be concluded that the investors should **hold** on to the stock since there is an opportunity for a pharmaceutical company like Dr. Reddy's to grow and expand especially during this period of COVID-19 . in september,2020 the company announced the launch of Remesivir under the brand name Redyx for Indian markets.

Which is a part of a licensing agreement with Gilead Sciences Inc that grants Dr Reddy's the right to register, manufacture and sell Remdesivir, a potential treatment for COVID-19, in 127 countries including India. Thus, pharmaceutical industries are particularly for the investors during this time of pandemic.