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Financial Analysis of Dr Reddy's Laboratories Ltd

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ABSTRACT:
This financial analysis of Dr. Reddy's Laboratories Ltd focuses on evaluating the financial health and performance of one of India's leading pharmaceutical companies. The study aims to assess the company's profitability, liquidity, solvency, and operational efficiency through an analysis of its financial statements over a specified period. The research also examines the impact of external factors, including market dynamics, regulatory changes, and global pharmaceutical trends, on the company's performance. The findings of this study are anticipated to provide stakeholders with a comprehensive understanding of Dr. Reddy's financial position, facilitating informed decision-making for investors, policymakers, and strategic planners. This analysis serves as a benchmark for understanding the financial intricacies of a global pharmaceutical leader while identifying opportunities for improvement and sustainable growth.

1. INTRODUCTION OF THE STUDY:

The Indian Pharmaceutical Industry is a science-based industry with advanced capabilities. It ranks high among third-world countries in terms of technology, quality, and range of medicines. The industry has grown from $0.3 billion in 1980 to $21.73 billion in 2023-24.India now ranks 3rd in volume of production and 14th largest by value globally. The country's pharmaceutical exports are substantial, with a significant share in advanced regulated markets. Many Indian companies maintain high standards in purity, stability, and international safety. Financial analysis is crucial to understanding a company's performance and potential Earnings are a key determinant of a stock's price and a company's future prospects. Earnings equal revenues minus cost of sales, operating expenses, and taxes. A company's earnings determine its share price and indicate future profitability. Earnings are important to investors as they indicate future dividends and growth potential. The Indian pharmaceutical industry has grown rapidly, driven by exports. The industry's financial performance is critical to its growth and success. Financial analysis helps identify areas for improvement and informs strategic decisions.

2. STATEMENT OF THE PROBLEM:

The pharmaceutical industry is a rapidly evolving sector with a lot of competition and regulatory challenges. Dr. Reddy's Laboratories is one of the leading pharmaceutical companies in India with a global presence. However, despite its success, the company has faced several financial challenges in recent years. This project aims to analyse the financial performance of D.R. Reddy's Laboratories to determine the reasons for any fluctuations and to provide recommendations for improvement.

3. OBJECTIVES OF THE STUDY:

1. To study the profitability position of the company.
2. To study the liquidity position of the company.

3. LIMITATIONS OF THE STUDY:

1. The study is focused only to the Dr. Reddy's Laboratories Ltd in India.
2. Due to short period of data analysis is limited to ratio analysis.
3. The study suffers all the limitation of ratio analysis, such as lack of adequacy change, income, price level change etc.,
4. The study is entirely based on the financial statement which shows historical data. The limitative pertained to financing statement analysis is also applicable to the study.

4. REVIEW OF LITERATURE:

Mr. P. Kanagaraj and Ms. V. Jeyavarthini (2023), "A Study on Financial Performance of Dr. Reddy's Laboratories Ltd". The study on the financial performance of Dr. Reddy's
Laboratories Ltd. provides an overview of the liquidity, solvency and profitability of the company. The financial performance of the company is analysed using ratio analysis to establish relationship between the items of financial statements. The overall financial performance of the company is satisfactory. Looking at the past five years, 2018-19 is regarded as the best financial year. The company is currently in a volatile phase. The analysis reveals that the company has to improve its liquidity. But it doesn't mean the company is not able to meet its current obligations.

Vipin V and Dr. S. Prasanna Kumar (2023), "Financial Performace Analysis of Dr Reddy's Laboratories Ltd". This study's main objective is to evaluate Dr Reddy's Laboratories Ltd.'s profitability ratios from 2017–18 to 2021–22 using time-series analysis. Dr Reddy's Labs Ltd. is performing well overall in terms of profitability, its market is expanding, it generates a respectable return on investment, and it has promising prospects. Also, it is discovered that there is a statistical connection between the performance of the company's gross profit margin ratios, operational profit margins, net profit margins, and return on equity ratios. The company is successful and has bright possibilities for the future, but in order to avoid future financial difficulty, it must pay particular attention to more successfully maaging its cost of goods sold and cutting its expenses.

Dr. K. Venkatachalam and Mr. A. Karupaiah (2024), "Liquidity and Profitability Analysis of Bharat Heavy Electrical Limited". Liquidity and Profitability management is of crucial importance in financial management decision. The most favorable fiscal performance could be achieved by a company that can trade off between profitability and liquidity performance indicators. The purpose of this study is to find out the liquidity and profitability position of and know the significance of them. In this connection researcher is interested in analyzing liquidity and profitability of one of the maharathna company Bharat Heavy Electrical Limited. It is concluded that managers can increase profitability and maintain liquidity by putting in place improve their current ratio, maintain adequate amount of liquid assets, control the cost of goods sold and operating expenses and strengthen their financial position

5. RESEARCH METHODOLOGY:

Research Design : The study adopts a descriptive research design to attain the research objectives .

Source of Data Collection : Secondary data - It is used to analyse the financial performance of Dr Reddy's laboratories Ltd over a period of time from the source of annual report, money control, journals, website and other published information etc.

Period of the Study : The study period is taken from 2019 - 2020 to 2023 - 2024 of Dr Reddy's laboratories Ltd.

TOOLS AND TECHNIQUES:

Tools used for this study are Ratio Analysis:

1. Current Ratio
2. Absolute Liquid Ratio
3. Gross profit Ratio
4. Net profit Ratio
5. Debt to equity Ratio
6. Debtors Turnover Ratio
7. Creditors Turnover Ratio
8. Fixed assets Turnover Ratio

6. ANALYSIS AND INTERPRETATION:

RATIO ANALYSIS:

7.1 CURRENT RATIO

YEARS	CURRENT ASSET (RS. IN LAKHS)	CURRENT LIABILITIES (RS. IN LAKHS)	RATIOS (%)
2020	37376.57	30416.58	1.22
2021	38804.52	33405.62	1.16
2022	64477.00	100771.80	0.64
2023	93887.61	136628.12	0.69
2024	82740.68	141382.71	0.59

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

INTERPRETATION:

Current ratio is a financial ratio that measures whether or not a company has enough resources to pay its debt over the next business cycle (usually 12 months) by comparing firm's current assets to its current liabilities. From the above table it can be inferred that the current ratio of the company is higher in the year 2020 with 1.24 and it was decreased to 0.59 in the year 2024. A high current ratio indicates "safe" liquidity; low values do not indicate a critical problem but should concern the management. So it is suggested to the company to take necessary actions to take care of liquidity problems.

7.2 ABSOLUTE LIQUID RATIO

YEARS	CASH (RS. IN LAKHS)	CURRENT LIABILITIES (RS. IN LAKHS)	RATIOS (%)
2020	1767.15	30416.58	0.06
2021	1936.31	33405.62	0.06
2022	1222.00	100771.80	0.01
2023	1973.52	136628.12	0.01
2024	2450.54	141382.71	0.02

$$\text{Absolute liquid Ratio} = \frac{\text{Cash \& Bank Balances + Marketable Securities}}{\text{Current Liabilities}}$$

INTERPRETATION:

The reason of computing absolute liquid ratio is to eliminate accounts receivables from the list of liquid assets because there may be some doubt about their quick collection. From the above it can be inferred that the company's absolute liquid ratio has been increased to 0.02 in the year 2024 from 0.01 in the year 2023. An absolute liquid ratio of 0.5:1 is considered ideal for most of the companies. But the absolute liquid ratio is only 0.02 in the current year (2024).

7.3 GROSS PROFIT RATIO

YEARS	GROSS PROFIT (RS. IN LAKHS)	NET SALES (RS. IN LAKHS)	RATIOS (%)
2020	13931.36	106646.31	13.06
2021	14988.56	102567.74	14.61
2022	16499.38	120849.64	13.65
2023	2522.77	152291.83	1.66
2024	12610.63	186125.75	6.78

$$\text{Gross profit Ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

INTERPRETATION:

From the above table it is inferred that the gross profit of the company is increased to 6.78 in the year 2024. This shows that the company is making a reasonable profit, and it has to keeps the overhead cost in control.

7.4 NET PROFIT RATIO

YEARS	NET PROFIT (RS. IN LAKHS)	NET SALES (RS. IN LAKHS)	RATIOS (%)
2020	12980.76	106646.31	12.17
2021	14783.41	102567.74	14.41
2022	14899.65	120849.64	12.33
2023	10893.84	152291.83	7.15

2024	9148.00	186125.75	4.91

Net profit after tax
Net profit Ratio = ———————————— x 100
Net sales

INTERPRETATION:

From the above table it can infer that the net profit of the company is decreased to 4.91 in the year 2024 from 7.15 in the year 2023. This indicates a low margin of safety. The company has to take care of the net profit of the company. The sales of the company are moderate.

7.5 DEBT- EQUITY RATIO

YEARS	SHAREHOLDERS FUND (RS. IN LAKHS)	TOTAL LONG TERM DEBT (RS. IN LAKHS)	RATIOS (%)
2020	66431.53	80645.09	0.82
2021	80450.21	136290.66	0.59
2022	91579.04	83773.44	1.09
2023	97068.63	87382.98	1.11
2024	103547.65	65728.61	1.58

Shareholders fund
Debt - equity Ratio = ————————————
Long-term debt

INTERPRETATION:

From the above table it can infer that the debt equity ratio of the company is decreased to 0.59 in the year 2021 from 0.82 in the year 2020. But the debt capacity of the company is gradually increased year by year. Therefore, it indicates the better debt capacity of the company.

7.6 DEBITORS TURNOVER RATIO

YEARS	CREDIT SALES (RS. IN LAKHS)	AVERAGE RECEIVABLES (RS. IN LAKHS)	RATIOS (%)
2020	106646.31	16973.83	6.28
2021	102567.74	19956.91	5.14
2022	120849.64	20585.34	5.87
2023	152291.83	36390.35	4.19
2024	186125.75	27694.17	6.72

Net Credit Sales
Debtors Turnover Ratio = ————————————
Average Accounts Receivables

INTERPRETATION:

From the above table it can infer that the debtor turnover ratio of the company is decreased to 5.14 in the year 2021 from 6.28 in the year 2020. But it started to increase from next year. So the company Average Receivables rate is in increasing level from 2020 to till 2024. Therefore the company credit sales capacity is gradually started to increase year by year.

7.7 CREDITORS TURNOVER RATIO

YEARS	NET CREDIT PURCHASES (RS. IN LAKHS)	AVERAGE CREDITORS (RS. IN LAKHS)	RATIOS (%)
2020	31944.07	19221.14	1.66
2021	27606.39	15825.09	1.74
2022	33526.45	16916.08	1.98
2023	50551.17	25783.63	1.96
2024	62739.82	36173.83	1.73

$$\text{Creditors Turnover Ratio} = \frac{\text{Net Credit purchases}}{\text{Average Accounts Payables}}$$

INTERPRETATION:

From the above table it can inferred that the creditor turnover ratio of the company is increased to 1.74 in the year 2021 from 1.66 in the year 2020 and it again started to increase for next two years. But again it started to decreased to 1.73 in the year 2024 from 1.96 in the year 2023. So the company has to concentrate on credit purchase and accounts payable in order to maintain the creditor turnover ratio.

7.8 FIXED ASSETS TURNOVER RATIO

YEARS	FIXED ASSETS (RS. IN LAKHS)	NET SALES (RS. IN LAKHS)	RATIOS (%)
2020	148395.33	106646.31	0.72
2021	209658.63	102567.74	0.49
2022	229342.45	120849.64	0.53
2023	248678.09	152291.83	0.61
2024	254101.34	186125.75	0.73

$$\text{Fixed assets Turnover Ratio} = \frac{\text{Fixed Assets}}{\text{Net Sales}}$$

INTERPRETATION:

From the above chart it can be inferred that the fixed asset turnover ratio is decreased to 0.49 in the year 2021 from 0.72 in the year 2020. Therefore it indicates A low asset turnover ratio may also suggest that a plant is obsolete and needs to be upgraded, an undertaking that can negatively impact cash reserves, the debt exposure, and cash flow for the medium to long term. But it started to increase the asset turnover ratio from immediate next year onwards .So the company has to take care of maintaining the fixed assets.

7. FINDINGS:

- The current ratio of the company is higher in the year 2020 with 1.22 and it was decreased to 0.59 in the year 2024.
- The company's absolute liquid ratio has been increased to 0.02 in the year 2024 from 0.01 in the year 2023.
- The gross profit of the company is increased to 6.78 in the year 2024.

- The net profit of the company is decreased to 4.91 in the year 2024 from 7.15 in the year 2023. This indicates a low margin of safety. The company has to take care of the sales of the company.
- The debt equity ratio of the company is decreased to 0.59 in the year 2021 from 0.82 in the year 2020. But the debt capacity of the company is gradually increased year by year
- The debtor turnover ratio of the company is decreased to 5.14 in the year 2021 from 6.28 in the year 2020. But it started to increase from next year.
- The creditor turnover ratio of the company is increased to 1.74 in the year 2021 from 1.66 in the year 2020 and it again started to increase for next two years
- The fixed asset turnover ratio is decreased to 0.49 in the year 2021 from 0.72 in the year 2022. But it started to increase the asset turnover ratio from immediate next year.

8. SUGGESTIONS:

- Pharmaceutical industries have to develop the attitude of spending more amount for Research and development.
- Pharmaceutical industry have to improve their sales by modern marketing techniques.
- Pharmaceutical industry have o increase their export over the world.
- The company can try to minimize the cost of production and redeem the debt finance in order to improve the profitability finance of the company.
- The cash ratio is indicating very low. So the company can increase the cash ratio.
- The company can issue more equity shares in 2020. So that the company can increase its reserves & surplus.

9. CONCLUSION:

In the present scenario business expands in a rapid pace with the changing needs. To make the business profitable to meet global competition the effective management of finance is essential. An analysis of financial performance is very much needed for the present globalised economic environment. Financial health of a company is a matter of concern for every stakeholder of a business. It is in fact the financial position of the company that derives the decision making process of any stakeholder. The Indian pharmaceutical industry will witness an increase in the market share. The sector is poised not only to take new challenge but to sustain the growth momentum of the past decade. During the period of study there were a few ups and downs in the profitability but it did not affect the operations of the company to a great extent. If the Pharmaceutical Industry has to perform well, it has to invest more capital and has to do more sales, only then it will improve its performance level.

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