

# Financial Performance Analysis of Selected Pharmaceutical Companies of the Health Care Industry listed on NSE

Dr. M. S. Verma<sup>1</sup>, Kanchan Bajaj<sup>2</sup> and Neha Jain<sup>3</sup>

<sup>1</sup>Professor, Department of Management, University of Delhi, Delhi, India

<sup>2,3</sup>Assistant Professor, Department of Management, Jagan Institute of Management Studies, Delhi, India

**Abstract** - The Indian pharmaceutical industry has played a vital role for its sustainable development in the field of medicines. India is the largest provider of generic drugs globally contributing 20% in the export share with 71% revenue share providing the largest segment of the Pharmaceutical industry in India. Finance is considered as the life blood of business and very crucial for the smooth running of a business. Financial performance analysis establishes relationship between the items of the Balance Sheet and the Profit and Loss account. It includes analysis and interpretation of financial statements to diagnose the profitability and financial soundness of the business in such a way that the comparison as well as overall financial health can be measured over a given period of time. In this perspective this study has undertaken the analysis of 5 pharmaceutical companies to understand how management of finance plays a vital role in the growth of this sector. An attempt has been made to analyze the profitability position of the companies listed on NSE with highest market capitalization in Pharma sector in 2020. This research is purely based on secondary data of last 5 years (2016-2020) and results proved that from the perspective of profitability ratios, all pharma companies in the study are financially sound though Aurobindo has low liquidity financial metric. In terms of leverage, Divis has turned into a zero-debt company in 2020 while in Activity turnover ratios DRL has been having highest Inventory turnover ratio which presumes that it has been able to restock items well balanced with sales.

**Keywords:** Financial performance, ratios, NSE, pharmaceutical industry, financial health

## I. INTRODUCTION

India shows potential market for Medical Devices and Diagnostics. The Indian pharmaceutical industry has played a vital role for its sustainable development in the field of medicines. Various MNCs have also been associated with this sector from past 58 years and helped to put India on the pharmaceutical map of the world. India is the largest provider of generic drugs globally contributing 20% in the export share with 71% revenue share providing the largest segment of the Pharmaceutical industry in India. If we consider revenues of the Indian market, Anti-infectives (13.6%), Cardiac (12.4%) and Gastrointestinal (11.5%) has the biggest market share. The Indian pharmaceutical industry supplies more than 50% of global demand for various vaccines, 40% of generic demand in the US and 25% of all medicines in UK. This sector is expected to grow to US\$ 100 billion, and medical device market expected to grow US\$ 25 bn by 2025.

Finance is considered as the life blood of business and very crucial for the smooth running of a business. Financial performance analysis establishes relationship between the items of the Balance Sheet and the Profit and Loss account. It is essential for the success of an enterprise. It is an evaluation of the feasibility, solidity and fertility of a business. It includes analysis and interpretation of financial statements to diagnose the profitability and financial soundness of the business in such a way that the comparison as well as overall financial health can be measured over a given period of time. Production and productivity performance, profitability performance, liquidity performance, leverage performance, asset utilization performance, growth performance and the financial strengths & weaknesses of a firm can be assessed by analyzing the financial statements. The financial analysts evaluate these indicators to conduct a business in a rational and normal way so that returns to the shareholders and the market value can be ensured.

Financial performance analysis is prepared primarily for decision-making purposes by identifying the opportunities to improve performance of the department, unit or organizational level. In this perspective this study has undertaken the analysis of pharmaceutical companies to understand how management of finance plays a vital role in the growth of this sector. An attempt has been made to analyze the profitability position of five leading pharmaceutical companies listed on NSE with highest market capitalization in Pharma sector in 2020.

## II. REVIEW OF LITERATURE

**Panigrahi A.K. (2019)** discussed the factors influencing the profitability of selected Pharmaceutical Companies in India listed on BSE and NSE with consistent financial data covering a period of five years from the financial year 2011-2012 to 2015-2016. It was concluded that gross profit ratio, operating ratio, return on equity capital, and EPS have significant effect on the net profit ratio of the selected pharmaceutical companies during the study period. However, during this period there were a few ups and downs in the profitability but it did not affect the operations of the companies and the overall profitability was satisfactory.

**Gopalakrishnan M.M., Sathish A.J, Reddy A.P. and Rama Krishna U. (2018)** in their study conducted Z Score Analysis by considering liquidity, solvency, profitability and financial efficiency of the selected pharmaceutical companies for the period of five years from 2012 to 2016. They stated that the pharmaceutical industry is in healthy zone as five companies out of eight were in healthy zone and only three companies were in bankruptcy zone.

**Singh Shankar Nidhi and Arrawatia Mini Amit (2018)** studied to evaluate and analyze the financial performance of automobile sector companies covering the data of 5 years from 2011-2015. Ratio analysis and statistical analysis were used for the analysis. Current ratio was not up to the mark i.e. standard norm and Earning Per Share also declined. It was suggested that the companies should use their assets optimally and try to improve the fixed assets turnover ratio.

**Pavithra J. , Thooyamani K.P. and Dkhar Kermiki (2017)** aim to know the overall profitability position of Jeppiaar Cements Pvt Ltd. by using Ratio analysis, Trend analysis and Comparative statements. The study covered a period of 5 years ranging from 2009-2014. It was found that the company had satisfactory credit worthiness and quick ratio was also improved in the last year of the study. The debtor's turnover ratio showed an increasing trend. However the inventory turnover ratio revealed normal position and the net profits also increased. So the overall profitability position was good.

**Geethalakshmi A. and Jothi k. (2016)** had made attempt to determine the financial performance of selected pharmaceutical companies in India by using financial performance parameters. It was determined that profitability of the selected companies during the study period of 10 years from 2006-2007 to 2015-2016 was satisfactory and fair. They stated that gross profit ratio, operating ratio, ROE and EPS have significant effect on the net profit ratio of the selected pharmaceutical companies during this period

**Puwar Akanksha , Jalan Kashish and Garg Ashim (2016)** analyzed the factors influencing Return on Equity using DuPont's three-point and five-point analysis on 12 leading companies in the pharmaceutical industry in India. It was concluded that Torrent Pharmaceuticals was the most profitable for its shareholders whereas Sun Pharma was the least profitable on the basis of Return on Equity. The authors suggested that Sun Pharma can improve their operating profit margin by increasing the revenues in relation to their operating expenses.

**Ravichandran M. and Subramanian M. Venkata (2016)** analyzed the financial operating position of Force motor limited over a period of five years by using various financial tools such as profitability ratio, solvency ratio, comparative statement, etc. The individual ratios were identified which affect the profitability of the industry. It was found that the company has maintained fair financial performance and further it can be improved if they concentrate on operating, administrative and selling expenses.

**Vijayalakshmia V. and Srividya M. (2014)** in their study stated that gross profit ratio, operating ratio, return on equity capital, and earnings per share have significant impact on the net profit ratio of the selected pharmaceutical companies during the study period. It was suggested that the Pharmaceutical Industry can improve its performance level if it invests more capital and somehow manage to increase the sales by using an innovative technology to have more product range.

**Bhunja Amalendu, Mukhuti Somnath and Roy Gautam (2011)** aim to identify the financial strengths and weaknesses of the Indian public sector drug and pharmaceutical enterprises listed on BSE covering the period of twelve years from 1997-98 to 2008-09. the methodology used to analyze the financial performance in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratios and statistical measures i.e., A.M., S.D., C.V., linear multiple regression analysis and test of hypothesis t-test were used. It was concluded that the liquidity position of the selected companies was strong however financial stability showed a downward trend. The major limitation of the research was that it did not compare public sector drug and pharmaceutical enterprises with private sector pharmaceutical enterprises.

## III. RESEARCH METHODOLOGY

Research methodology is a way to get answers systematically for the research problems. It includes the overall research design, the sampling procedure, and Data collection method and analysis procedure<sup>1</sup>. The main objective of

this study was to analyze and compare the financial performance of selected pharma companies from NSE. This study helps us in determining the financial well-being of the company as compared to its peers. The companies selected are given in Table 1. The companies selected are the ones with highest market capitalization in Pharma sector NSE in 2020. The research is based on financial metrics of companies for the period of 2016-2020. This paper is based on secondary data analysis. The financial data has been retrieved from Moneycontrol.com.

List of selected Pharma companies from NSE

<i>NO.</i>	<i>STOCK CODE</i>	<i>COMPANY NAME</i>
1	DIVISLAB	Divis Laboratories Ltd.
2	SUNPHARMA	SunPharmaceutical Industries Ltd.
3	CIPLA	Cipla Ltd.
4	AUROPHARMA	Aurobindo Pharma Ltd.
5	DRREDDY	Dr Reddys Laboratories Ltd.

Table 1

IV. ANALYSIS AND INTERPRETATION

The following is the analysis of the financial performance of the selected pharma companies from NSE which are Sun Pharmaceuticals Industries Ltd. (Sun), Dr Reddys Laboratories Ltd. (DRL), Divis Laboratories Ltd.(Divis), Cipla Ltd. (Cipla) and Aurobindo Pharma Ltd. (Aurobindo) for the period of 2016-2020 listed on NSE.

4.1 Liquidity ratios

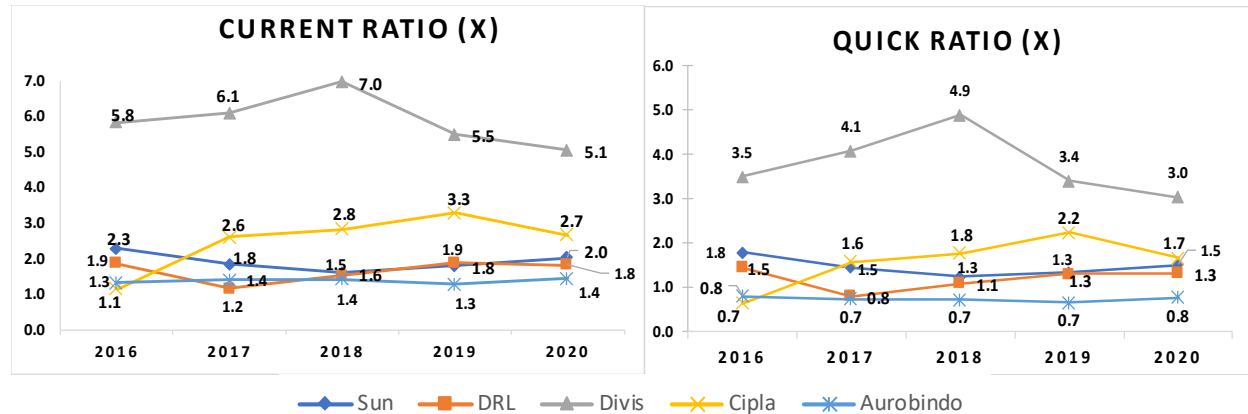


Figure 1

The results of the analysis of liquidity ratio (refer figure 1) depicts that company Divis has a very high liquidity ratio which means that it has a good financial health and will face less financial hardships. It will easily meet its short term debt obligations. But the current ratio is more than 3 which also shows that company may not be using its current assets efficiently or managing its working capital properly. Divis is followed by Cipla in terms of good financial health. DRL and Sunpharma have a similar level of liquidity ratios. Aurobindo has the lowest liquidity ratio as its quick ratio is less than 1 which indicates that the firm is not sufficiently liquid as compared to its peers, although it might also mean that they might be managing their working capital well.

4.2 Profitability ratios

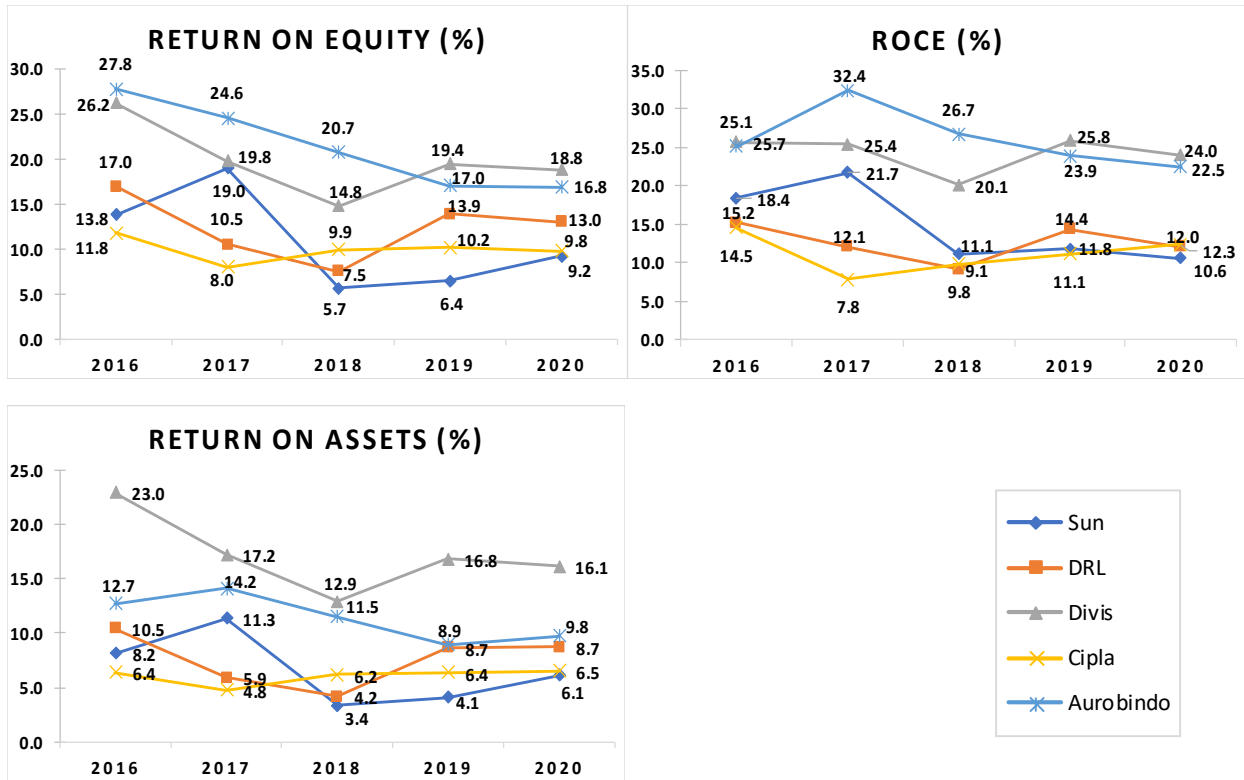


Figure 2

The results of the analysis of profitability ratio (refer figure 2) depicts that company Aurobindo has a good Return on equity (ROE) as compared to its peers though it has been falling over the years. Divis follows Aurobindo in terms of ROE which had a decreasing trend till 2018 but it has been increasing since then. DRL has also managed to maintain an average ROE over the years. Cipla and Sunpharma have struggling with its ROE as compared to its peers. ROE between 15-20% is usually considered good.

Return on capital employed (ROCE) for the firms under consideration has been on the similar lines as the ROE. Aurobindo had a good ROCE over the years but it is having a decreasing trend since 2018. It can be interpreted from the ROCE for all the firms that it is less in 2020 as compared to 2016.

Return on assets (ROA) for Divis has been commendable over the years. It is generally believed that an ROA of more than 5% is good. Even all its peer firms have been able to maintain a good ROA except Sunpharma for a period between 2018 and 2019.

#### 4.3 Leverage ratios

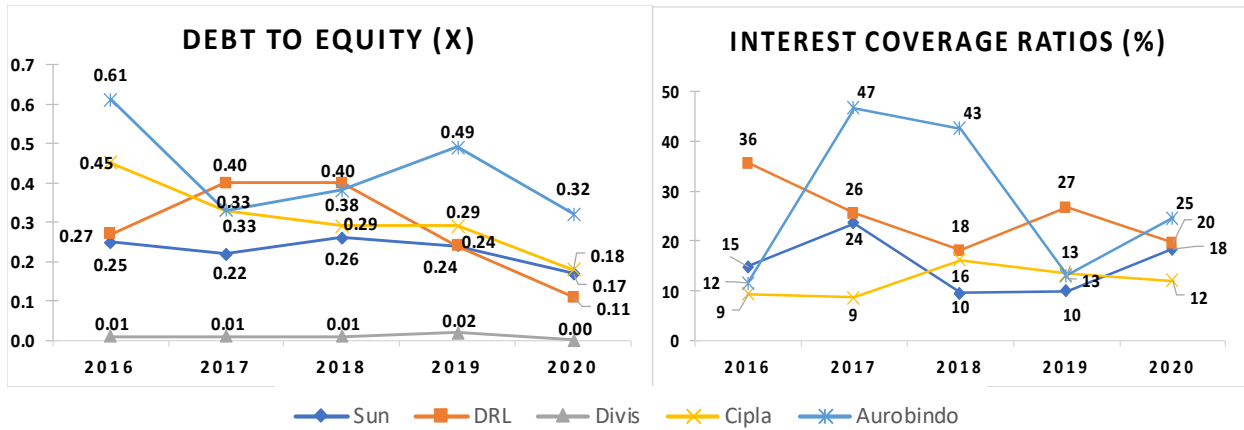


Figure 3

The results of the analysis of leverage ratio (refer figure 3) depicts that company Aurobindo had a poor debt ratio in 2016 because it was more than 0.6 but it has been decreasing over the years hence indicating lowering amounts of debt. For all its peer group companies the debt to equity ratio has been around 0.4 which is ideally considered good. Divis has a debt equity ratio of 0.01 and decreased to 0 in 2020 which shows that it does not have borrowed finance for operations. But which may also limit the return that can be realized and passed to the shareholders.

Interest coverage ratio(ICR) for Divis has not been depicted in the graph and considered outlier as it had less or no borrowed funds and hence has less or no interest obligations. Aurobindo has been maintaining a good ICR over the years though it had decreasing trend in 2018 and 2019 but has recovered in 2020. For all its peer companies also the ICR has been good and above 2 which indicates that they are in good financial health and can easily meet their interest payment obligations.

#### 4.4 Margin ratios

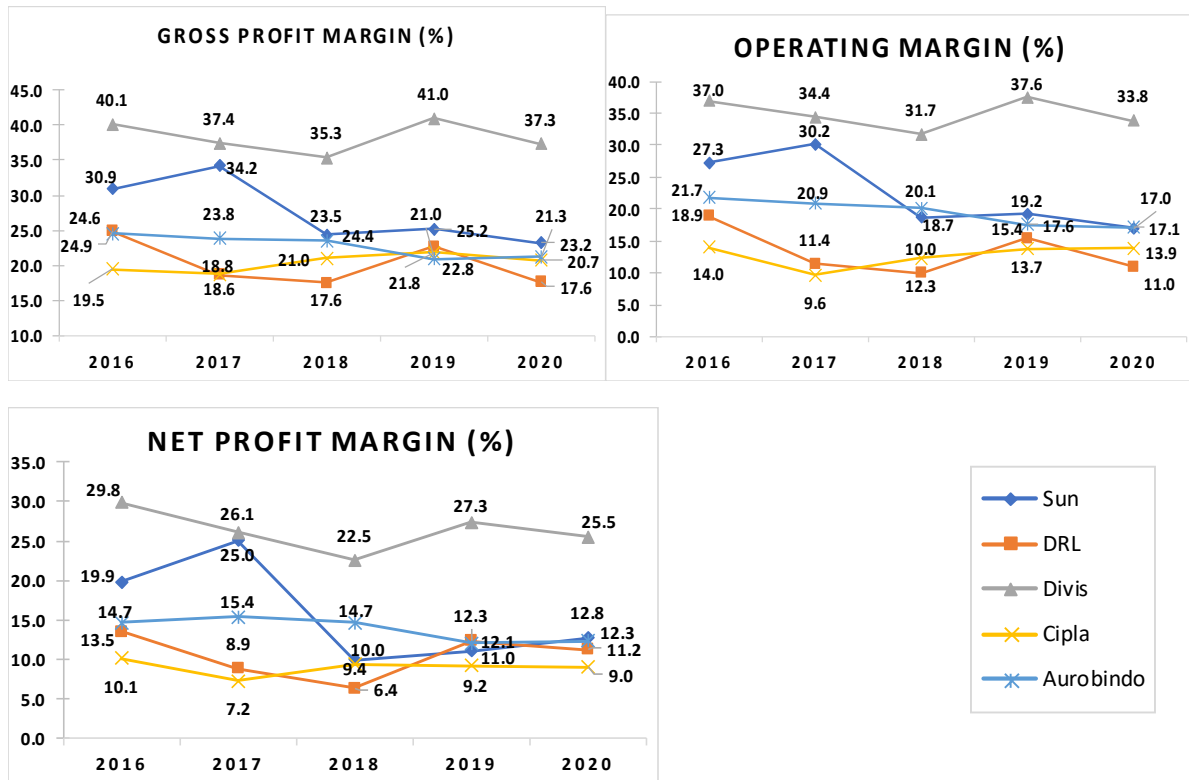


Figure 4

The results of the analysis of margin ratio (refer figure 4) depicts that Divis has good profitability ratios among its peer companies. It has a better Net profit margin, gross profit margin and operating margin as compared to its peers. These ratios depict that Divis has a better operational efficiency in relation to its peers. Divis is closely followed by Sun Pharma in terms of operational efficiency. Aurobindo, DRL and Cipla also have been able to keep up with the profitability aspect which is one of the main objective of a company. All these ratios show that the pharma companies have been in a good financial health.

4.5 Activity ratios

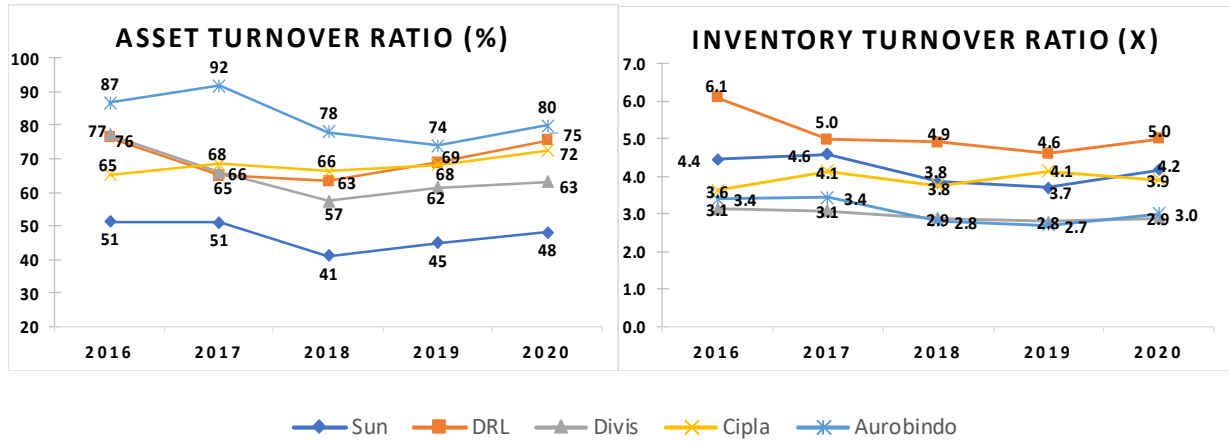


Figure 5

The results of the analysis of Asset turnover ratio (refer figure 5) depicts that Aurobindo has been using its assets in an efficient manner to produce sales as compared to its peers. Aurobindo is closely followed by DRL and Divis. Sunpharma and Cipla have a comparatively less Asset turnover ratio as compared to its peers.

Inventory turnover ratio (ITR) of DRL is the highest as compared to its peers which means that it has been able to restock items well balanced with sales. The ideal ratio is about 4 to 6 for most industries. For Indian pharmaceutical sector the average is 3.44 times. Divis has the lowest ITR compared to its peers which shows that possibly it has much more inventory than it needs.

V. CONCLUSION

After analysing the companies financial performance with the help of various ratios such as Liquidity, Profitability, Leverage, Activity and turnover ratios it is indicated that Divis and Aurobindo have been doing good and are financially sound. Though Aurobindo has low liquidity financial metric but it is high in profits. From the perspective of profitability ratios, all pharma companies in the study have been doing good. In terms of leverage, the analysis shows that Divis has turned into a zero debt company in 2020 which may result in lowering of returns to the shareholders. In Activity turnover ratios, Aurobindo has been able to use its assets in an efficient manner as compared to its peers. DRL has been having highest Inventory turnover ratio which presumes that it has been able to restock items well balanced with sales also Divis ratio shows that it has much more inventory than it needs.

It is suggested to the sector that proper inventory control measures should be taken to reduce the superfluous stock and to maintain appropriate lead time. The management should be more attentive to improve the present situation because if there is any further increase in the current ratio it may create a severe problem for the firm. They should adopt a strict and suitable credit policy. The companies may use innovative technology to increase the product range which may further increase the export sales ensuring the increased foreign exchange earnings.

REFERENCES

[1] Bhunia Amalendu, Mukhuti Somnath and Roy Gautam, "Financial Performance Analysis-A Case Study", Current Research Journal of Social Sciences, Vol.3(3),2011, 269-275

- [2] Singh Shankar Nidhi and Arrawatia Mini Amit, "A study of financial performance analysis of Mahindra & Mahindra and Tata Motors", International Research Journal of Commerce Arts and Science, Vol 9(5), 2018, 28-40
- [3] Pavithra J., Thooyamani K.P. and Dkhar Kermiki, "A study on the analysis of financial performance with reference to Jeppiaar Cements Pvt Ltd", International Journal of Pure and Applied Mathematics, Vol.116(14),2017, 189-194
- [4] Ravichandran M. and Subramanian M. Venkata, "A Study on Financial Performance Analysis of Force Motors Limited", International Journal for Innovative Research in Science & Technology, Vol.2(11), 2016, 662-666
- [5] Panigrahi A.K., "Analysis of Financial Performance: A Study of Selected Pharmaceutical Companies", Global Management Horizon, Annual Referred Journal, Vol. 8, 2019, 47-56
- [6] Vijayalakshmia V. and Srividya M, "A Study on Financial Performance of Pharmaceutical Industry in India", Journal of Management and Science, Vol 4(3), 2014, 36-54
- [7] Puwar Akanksha, Jalan Kashish and Garg Ashim, "Financial Analysis of Pharmaceutical Companies in India", International Journal of Science and Research, Vol 7(8), 2018, 418-426
- [8] Gopalakrishnan M.M., Sathish A.J, Reddy A.P. and Rama Krishna U, "Analysis of Financial Performance of Pharmaceutical Companies Using Z Score Model", Shanlax International Journal of Management, Vol.4(2), 2018, 93-100
- [9] Geethalakshmi A. and Jothi k., "A Study on profitability position of Pharmaceutical Industry in India", International Journal of Advance Research in Computer Science and Management Studies, Vol. 4(4), 2016, 181-188
- [10] Horne, J.C. (2007). Financial Management and Policy: Pearson Education Asia, New Delhi.
- [11] Khan, M.Y.Jain, P. K. (2012). Financial Management- Text, Problems and Cases: TataMcGraw Hill Education Private Limited, New Delhi.
- [12] Kothari C R. (2014). Research Methodology: Methods and Techniques: New Age International Publishers
- [13] Panday, I.M. (2004). Financial management: Vikas Publishing House Pvt. Ltd., New Delhi.
- [14] <http://www.moneycontrol.com>
- [15] <http://www.investopedia.com>
- [16] <https://www.moneycontrol.com/india/stockpricequote/pharmaceuticals/sunpharmaceuticalindustries/SPI>
- [17] <https://www.moneycontrol.com/india/stockpricequote/pharmaceuticals/drreddylaboratories/DRL>
- [18] <https://www.moneycontrol.com/india/stockpricequote/pharmaceuticals/cipla/C>
- [19] <https://www.moneycontrol.com/india/stockpricequote/pharmaceuticals/aurobindopharma/AP>
- [20] <https://www.moneycontrol.com/india/stockpricequote/pharmaceuticals/divislaboratories/DL03>

## Appendix

Tables of Profitability Ratio

<b>Return on Equity (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	13.8	19.0	5.7	6.4	9.2
Dr Reddys Laboratories Ltd.	17.0	10.5	7.5	13.9	13.0
Divis Laboratories Ltd.	26.2	19.8	14.8	19.4	18.8
Cipla Ltd.	11.8	8.0	9.9	10.2	9.8
Aurobindo Pharma Ltd.	27.8	24.6	20.7	17.0	16.8

<b>ROCE (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	18.4	21.7	11.1	11.8	10.6
Dr Reddys Laboratories Ltd.	15.2	12.1	9.1	14.4	12.0
Divis Laboratories Ltd.	25.7	25.4	20.1	25.8	24.0
Cipla Ltd.	14.5	7.8	9.8	11.1	12.3
Aurobindo Pharma Ltd.	25.1	32.4	26.7	23.9	22.5

<b>RETURN ON ASSETS (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	8.2	11.3	3.4	4.1	6.1
Dr Reddys Laboratories Ltd.	10.5	5.9	4.2	8.7	8.7
Divis Laboratories Ltd.	23.0	17.2	12.9	16.8	16.1
Cipla Ltd.	6.4	4.8	6.2	6.4	6.5
Aurobindo Pharma Ltd.	12.7	14.2	11.5	8.9	9.8

Tables of Liquidity Ratio

<b><u>Current Ratio (X)</u></b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	2.3	1.8	1.6	1.8	2.0
Dr Reddys Laboratories Ltd.	1.9	1.2	1.5	1.9	1.8
Divis Laboratories Ltd.	5.8	6.1	7.0	5.5	5.1
Cipla Ltd.	1.1	2.6	2.8	3.3	2.7
Aurobindo Pharma Ltd.	1.3	1.4	1.4	1.3	1.4

<b><u>Quick Ratio (X)</u></b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	1.8	1.5	1.3	1.3	1.5
Dr Reddys Laboratories Ltd.	1.5	0.8	1.1	1.3	1.3
Divis Laboratories Ltd.	3.5	4.1	4.9	3.4	3.0
Cipla Ltd.	0.7	1.6	1.8	2.2	1.7
Aurobindo Pharma Ltd.	0.8	0.7	0.7	0.7	0.8

Tables of Leverage Ratio

<b><u>Debt to Equity (x)</u></b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	0.25	0.22	0.26	0.24	0.17
Dr Reddys Laboratories Ltd.	0.27	0.40	0.40	0.24	0.11
Divis Laboratories Ltd.	0.01	0.01	0.01	0.02	0.00
Cipla Ltd.	0.45	0.33	0.29	0.29	0.18
Aurobindo Pharma Ltd.	0.61	0.33	0.38	0.49	0.32

<b><u>Interest Coverage Ratios (%)</u></b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	15	24	10	10	18
Dr Reddys Laboratories Ltd.	36	26	18	27	20
Divis Laboratories Ltd.	369	621	927	531	299
Cipla Ltd.	9	9	16	13	12
Aurobindo Pharma Ltd.	12	47	43	13	25

Tables of Activity Ratio

<b><u>Asset Turnover Ratio (%)</u></b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	51	51	41	45	48
Dr Reddys Laboratories Ltd.	76	65	63	69	75
Divis Laboratories Ltd.	77	66	57	62	63
Cipla Ltd.	65	68	66	68	72
Aurobindo Pharma Ltd.	87	92	78	74	80

<b><u>Inventory Turnover Ratio</u></b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	4.4	4.6	3.8	3.7	4.2
Dr Reddys Laboratories Ltd.	6.1	5.0	4.9	4.6	5.0



Divis Laboratories Ltd.	3.1	3.1	2.9	2.8	2.9
Cipla Ltd.	3.6	4.1	3.8	4.1	3.9
Aurobindo Pharma Ltd.	3.4	3.4	2.8	2.7	3.0

Tables of Margin Ratio

<b>Gross Profit Margin (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	30.9	34.2	24.4	25.2	23.2
Dr Reddys Laboratories Ltd.	24.9	18.6	17.6	22.8	17.6
Divis Laboratories Ltd.	40.1	37.4	35.3	41.0	37.3
Cipla Ltd.	19.5	18.8	21.0	21.8	20.7
Aurobindo Pharma Ltd.	24.6	23.8	23.5	21.0	21.3

<b>Operating Margin (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	27.3	30.2	18.7	19.2	17.0
Dr Reddys Laboratories Ltd.	18.9	11.4	10.0	15.4	11.0
Divis Laboratories Ltd.	37.0	34.4	31.7	37.6	33.8
Cipla Ltd.	14.0	9.6	12.3	13.7	13.9
Aurobindo Pharma Ltd.	21.7	20.9	20.1	17.6	17.1

<b>Net Profit Margin (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
SunPharmaceutical Industries Ltd.	19.9	25.0	10.0	11.0	12.8
Dr Reddys Laboratories Ltd.	13.5	8.9	6.4	12.3	11.2
Divis Laboratories Ltd.	29.8	26.1	22.5	27.3	25.5
Cipla Ltd.	10.1	7.2	9.4	9.2	9.0
Aurobindo Pharma Ltd.	14.7	15.4	14.7	12.1	12.3