



## **Analysis and Evaluation of Financial performance of Pharmaceutical Industry through Ratios**

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### ABSTRACT

In any Business organisation the decision with regarding to quality and quantity of technological resources, human resources, knowledge resources, physical, non-physical resources etc, are decided based upon the financial resources. The present paper is an effort to analyze the recent developments in the business specifically with those companies who are involved in the health care sector. The Pharma industry has played a major role in countering the Pandemic situation of COVID 19. Many Pharma companies were forced to increase their capacity to meet the requirement at this situation hence finances of the companies felt a greater amount of pressure in handling the situation. The present study emphasises the importance of Financial Performance evaluation through the ratios which is considered as the best tool for analysis. The paper also concludes that the selected Pharma companies performance is highly satisfactory.

KEYWORDS:Pharma Industry, Financial Statement Analysis, Net Worth, Bio-surgical.

### INTRODUCTION ABOUT THE STUDY:

The Indian Pharma industry has recorded 85% of the total production in the world in 2020 & Indian companies are the largest generic drug producer globally. The pharmaceuticals industry consists of drug manufacturers, who are primarily focused on medicinal and veterinary, chemical and biological compounds. The Indian Pharma market itself is the largest customer as our population is around 1.3 billion & the responsibility of the government to maintain the health of the people. All over the world Pharma industries sales have considerably increased due to the current situation of COVID 19 & more so with Indian pharma companies also have experienced an increased sales of greater than 9% over their last year's sales. Among the many pharma companies both in public & private sector have performed really well during the past one & half year. To name a few of them Dr. Reddy's Lab Ltd, Sun Pharma & Lupin Ltd.

Dr. Reddy's Laboratories Ltd is an Indian multinational pharmaceutical company located in Hyderabad, Telangana. The company deals in manufacturing of drug, diagnostic kits, critical care and biotechnology products that include vaccines, lenses and animal health. There Net income for the year 2020 is US\$ 2.4 Billion.

Sun Pharmaceutical Industries Ltd is an Indian multinational pharmaceutical company headquartered in Mumbai, Maharashtra. The company deals in manufacturing and selling the pharmaceutical formulations and Active Pharmaceutical products i.e Acamprosate calcium, Alendronate sodium, Amifostine trihydrate, budenonide and Carvedilol. it is the largest pharma company in India and fourth largest speciality with Revenue of over US \$ 4.5 billion as of June 2021.

Lupin Limited is an Indian multinational pharmaceutical company based in Mumbai, Maharashtra. The company deals in manufacturing the products like Pharmaceuticals, generic drugs, vaccines, diagnostics, contact lenses and animal health. It is one of the largest generic pharmaceutical companies by revenue globally of over US \$ 2.2 billion as of 2020.

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## OBJECTIVES OF THE STUDY:

1. To understand and enlist the financial variables which influences the financial position in a pharma industry.
2. To analyse and compare the liquidity, profitability and solvency position of the sample.
3. To conclude and recommend the financial analysis to similar type of industry.

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## REVIEW OF LITERATURE:

- **Monalisa Mohanthy ( July2020)**, The paper has analyzed the financial performance pf selected pharma companies in India Using the ratios as a tool.
- **V. Vijayalakshmi and M. Srividya (Sept 2014)**, This paper has evaluated the Pharma industry with another perspective by employing the statistical methods like mean, standard deviation, variance, regression etc. It is concluded that Indian pharma industry is having a promising growth.
- **Y.A. Babalola and F.R. Abiola (2013)**, The paper has clearly established a relationship between the accounting variables which are criticized being historic with the financial analysis being historic with the financial analysis which is a part of financial decision making through this paper they have brought the relevance of accounting data to financial statement analysis.
- **Md. Tofael Hossain Majumder and Mohammed Mizanur Rahmna (2011)**, This paper has analyzed the situation in pharma industry in Bangladesh using the ratios as a tool.

The reviews of many more papers have revealed that even after developing many dimensions and methodology for financial performance evaluation, Ratio analysis is considered as the best tool to make financial statement analysis. The present study has been taken up to give a better view of the Indian pharma industry though there are many literatures on Ratios, the paper is an effort to make a comparative analysis of the three Indian pharma companies and to interpret the overall efficiency of Indian pharma industry which has achieved the success and laurels by supplying covid vaccine to the neighbouring countries.

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## STATEMENT OF PROBLEM:

Finances the most important resource which needs to be handled atmost care as it is involved in the decision-making process of acquiring all other resources for the organisation. The decision with regarding to quality and quantity of technology human resource, knowledge, physical, non-physical resources etc, are decided based upon the financial resources. Hence the financial resources are having two attributes one available in scares quantity and second carries a cost.

The present study is undertaken to analyse the financial performance of three major pharmaceutical industries in India in understanding the financial health of those companies and to analyse the liquidity, profitability and solvency condition in these companies. A comparative analysis is also made to have a clear understanding of the financial resource by these companies.to carry out this analysis the ratio analysis is considered as the best tool.

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## RESEARCH DESIGN:

The study is based on a descriptive research as it describes the variables used for analysis like current ratio, cash ratio, net profit ratio etc, it is basically based on the secondary source of information i.e financial statements like balance sheet & income statement of the three sample companies. The statements are collected for a period of 5 years from the NSE website.

The study is conducted to analyse the financial performance of the three companies individually and making a thoroughanalysis of liquidity, profitability and solvency positions of these companies to draw useful conclusions in understanding the financial efficiency of these three sample companies.

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## SCOPE OF THE STUDY:

The study conducted on the three pharma companies can be used to analyse the financial performance of many other sectors in the similar lines, it is useful for understanding the growth prospects of pharma sector.

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## DATA ANALYSIS:

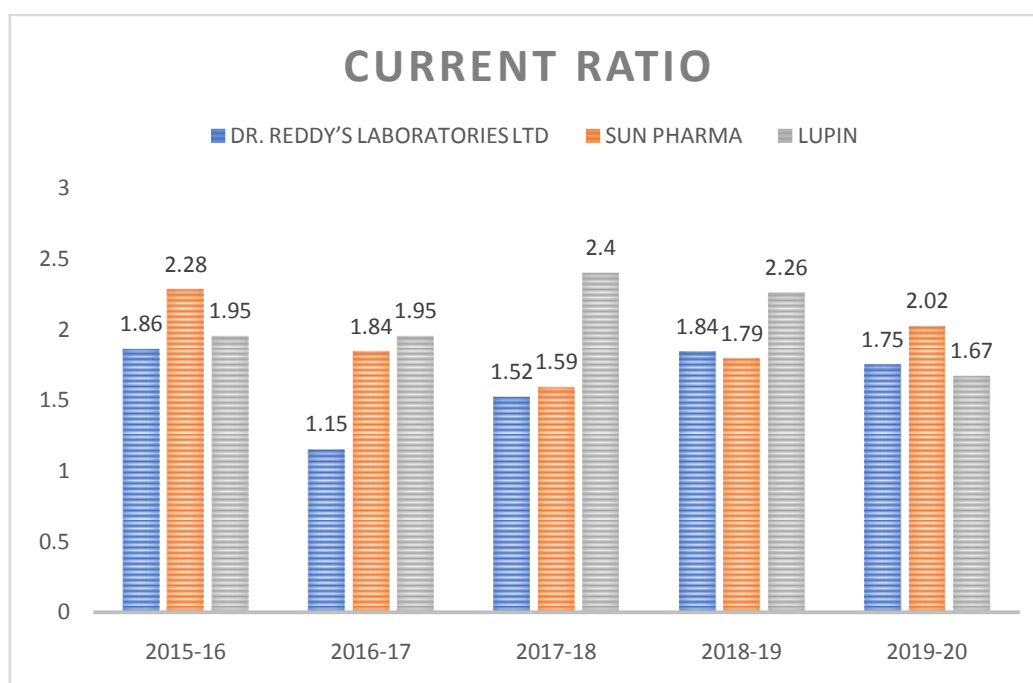
The pharma companies income statement & Balance sheet have a unique items representing the deployment of financial resources on the in house Research & development activity, production of generic medicine & regular branded medicines, quality controls & checks at various levels, Quality certifications etc, tge revenue is generated not only by selling inland but also through exports which are made for both generic & regular branded

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medicines. The pharma industry has to invest heavily on acquiring the Plant & Machinery & on Inventory of various raw materials. The following is some of the financial ratios which reveal the performance.

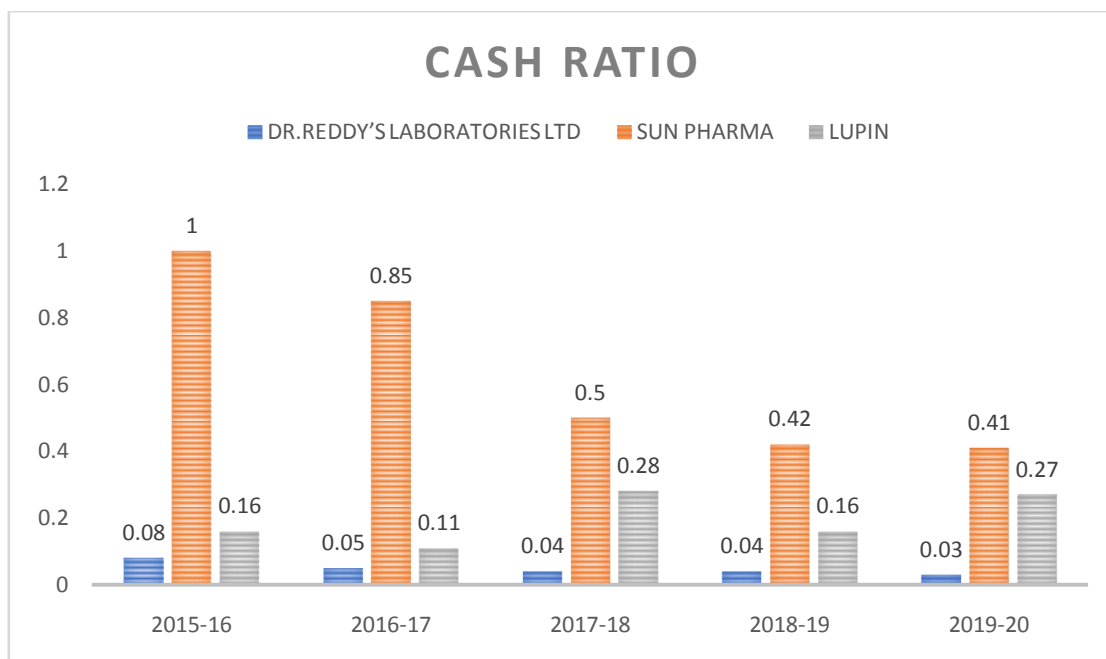
#### CURRENT RATIO:

YEARS	DR. REDDY'S LABORATORIES LTD	SUN PHARMA	LUPIN LTD
2015-16	1.86	2.28	1.95
2016-17	1.15	1.84	1.95
2017-18	1.52	1.59	2.40
2018-19	1.84	1.79	2.26
2019-20	1.75	2.02	1.67



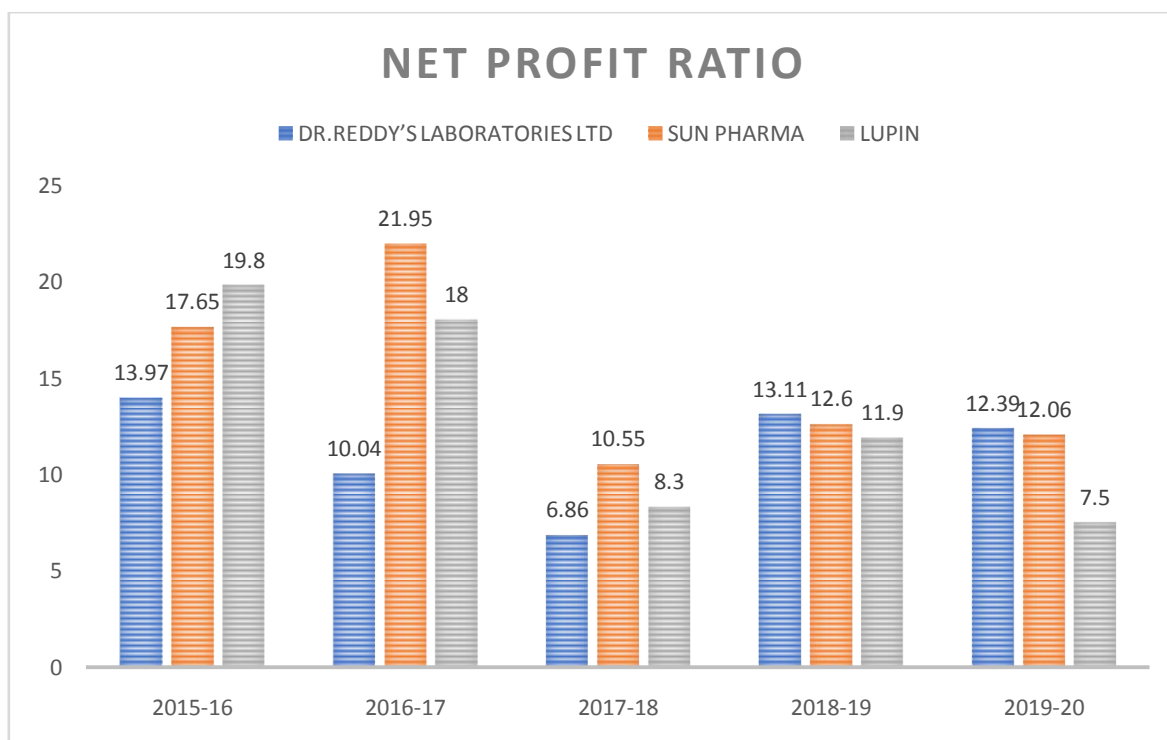
#### CASH RATIO

YEARS	DR. REDDY'S LABORATORIES LTD	SUN PHARMA	LUPIN
2015-16	0.08	1	0.16
2016-17	0.05	0.85	0.11
2017-18	0.04	0.5	0.28
2018-19	0.04	0.42	0.16
2019-20	0.03	0.41	0.27



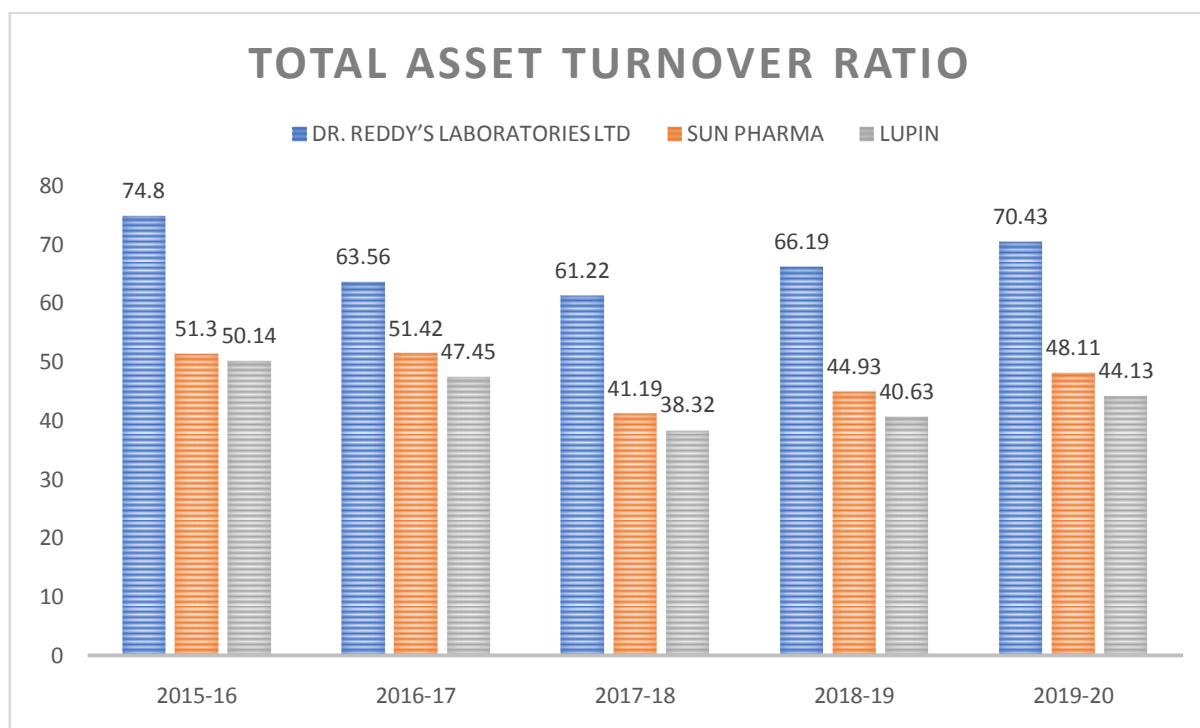
**Net Profit Ratio**

YEARS	DR. REDDY'S LABORATORIES LTD	SUN PHARMA	LUPIN
2015-16	13.97	17.65	19.8
2016-17	10.04	21.95	18.0
2017-18	6.86	10.55	8.30
2018-19	13.11	12.6	11.9
2019-20	12.39	12.06	7.5

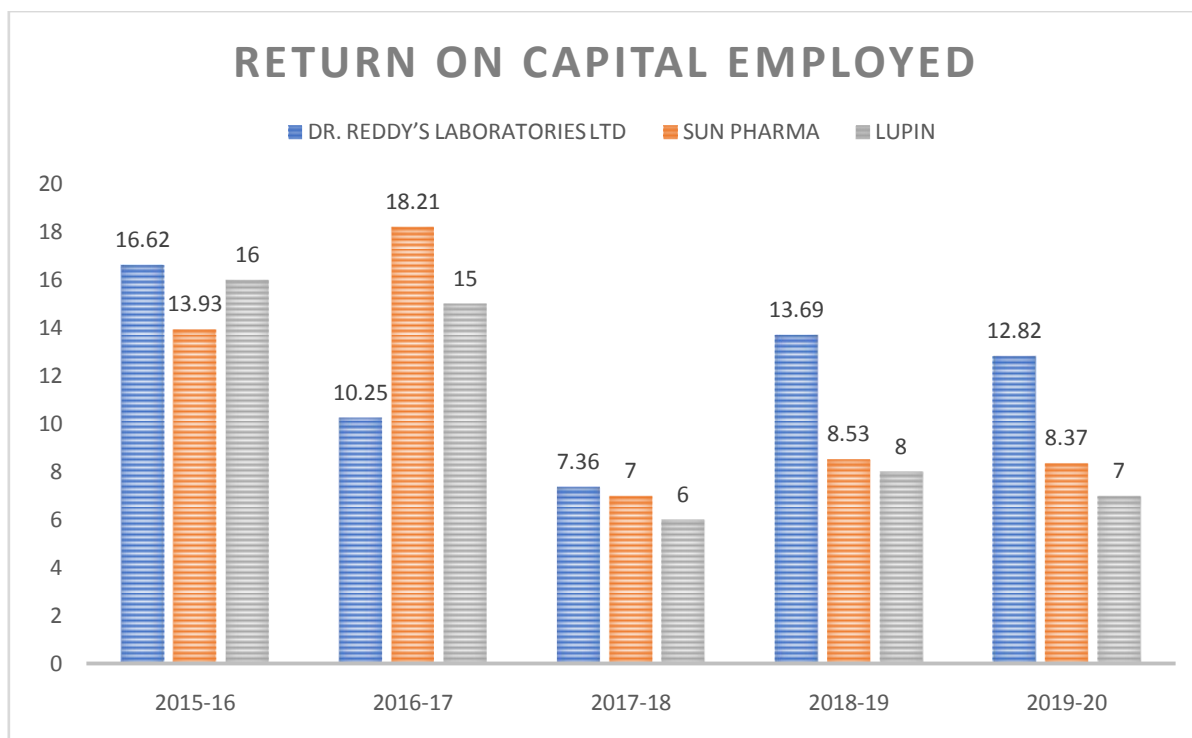


**Total Asset Turnover Ratio**

YEARS	DR. REDDY'S LABORATORIES LTD	SUN PHARMA	LUPIN
2015-16	74.80	51.3	50.14
2016-17	63.56	51.42	47.45
2017-18	61.22	41.19	38.32
2018-19	66.19	44.93	40.63
2019-20	70.43	48.11	44.13

**Return on Capital Employed**

YEARS	DR. REDDY'S LABORATORIES LTD	SUN PHARMA	LUPIN
2015-16	16.62	13.93	16
2016-17	10.25	18.21	15
2017-18	7.36	7	6
2018-19	13.69	8.53	8
2019-20	12.82	8.37	7



## FINDINGS/ OUTCOME

- It is observed that the current ratio of Reddy's lab & Lupin company is well within the standard ratio of 2 but Sun pharma is on little higher % which needs to be managed. The reason could be due to the pressure on the production to achieve higher output levels.
- The pharma companies cash ratio is not very satisfactory indicating that the companies major production is supplied to government hospitals which generates cash at a later point.
- Though the companies sales have grown considerably the Net profit growth is not proportionate as the sales are affected due to government intervention.
- The asset turnover ratio is showing a higher ratio indicating the stress upon the assets to produce more to meet the sudden hike in demand.
- A highly satisfactory results are shown by all the three companies through return on capital employed indicating a positive growth of the companies.

## CONCLUSION:

The Indian pharma companies are really doing well as they were successful in developing a vaccine for COVID 19 i.e. COVAXIN. They have supplied the vaccine not only within the country but also to the outside world especially to the neighbouring countries. All three companies are supplying all variety of drugs & Surgical requirements, Dr Reddy's lab & Lupin Ltd are producing the vaccines but not the Sun Pharma company. Among the three companies the Lupin Ltd. has utilised the resources & is able to record a high growth. To conclude all the Pharma companies can serve better the public by concentrating on the improvement of the quality medicines at low cost as medicines are a universal product required by both poor & the rich. They must invest more on inhouse research & development activity to produce international standard medicines & to obtain the various international drug control certificates in an ethical manner.

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