



A STUDY ON FINANCIAL PERFORMANCE OF SELECTED COMPANIES IN INDIAN PHARMACEUTICAL INDUSTRY

Praveenraj S

B.Com 3rd Year, (19-UCO-520), Loyola College, Chennai

ABSTRACT

The study aims at analyzing and comparing the selected companies(i.e. Cipla Ltd , Sun Pharmaceutical Industries Ltd and Dr. Reddy's Laboratories) in the Pharmaceutical industry, which is an ever growing industry and providing insight to investors about the performance and growth potential in the Selected companies..Pharmaceutical sector is one of promising sectors in India when it comes to growth and profitability since need for medicines is never dying, sales grows every year. Investors generally choose the pharmaceutical sector to diversify their portfolio, as they consider it as safer investment compared to investment in other sectors.To study the performance of the company fundamental analysis such as EPS, DPS, P/E ratio, ROI, Debt-equity ratio ,Dividend Yield Ratio,PEG ratio etc. The data source for the study was obtained from the National Stock Exchange(NSE).

The result showed which Selected company has better EPS, Growth potential and Less risk and strong Financial performance over the past decade. The Study Provides Fundamental analysis to Investors for investing in the selected companies.

Keywords: *Cipla Ltd, Sun Pharmaceuticals Industries, Dr. Reddy's Laboratories, Dividend, Growth, NSE, Turnover, Ration Analysis, Fundamental Analysis*

1. INTRODUCTION

India's pharmaceutical industry ranks third in the world in volume and 14th in size. Total Annual Medical Benefit Amount Rs. 2,89,998 crore for the year 2019-2020. The total amount of drug sales and imports was Rs. 1,46,260 crore and Rs. 42,943 crore respectively for the year 2019-20.

Major Components of the General Medicine Sector, OTC Medications and API / Bulk Drugs, Vaccines, Contract Research and Manufacturing, Bio similar & Biologics.

This study focuses on selected three companies namely Cipla Ltd, Sun Pharmaceutical Industries Ltd and Dr. Reddy's Laboratories.

Cipla Ltd:

Cipla Limited is an Indian pharmaceutical company based in India, headquartered in Mumbai,. Cipla primarily develops medications to treat respiratory, cardiovascular disease, arthritis, diabetes, weight control depression and other health conditions.

It was founded by Kwaja Abdul Hamied as 'The Chemical, Industrial & Pharmaceutical Laboratories' in 1935 in Mumbai. The company name was changed to 'Cipla Limited' on July 20, 1984. In 1985, the US FDA approved the company's drug-manufacturing facilities.

Cipla has 34 production units in eight locations throughout India and its presence in more than 80 countries.

As of 18 April 2022, its market capitalization was 82,018.29 making it India's 56nd largest publicly traded company by market value and shares were traded at Rs.1025.85.

Sun Pharmaceutical Industries Ltd:

Sun Pharmaceutical Industries Limited is an Indian pharmaceutical company headquartered in Mumbai, Maharashtra, which manufactures and sells pharmaceutical formulations and active pharmaceutical ingredients (APIs) in more than 100 countries around the world. general.. The products cover a wide range of medical fields including psychiatry, anti-infective, neurology, cardiology, orthopedic, diabetology, gastroenterology, ophthalmology, nephrology, urology, dermatology, gynecology, respiratory, oncology, dentistry and nutrition. It is the 4th largest pharmaceutical company in the world and the largest company in India, with a total profit of more than Rs.33,139 crore during 2021.

Sun Pharmaceuticals was founded by Dilip Shanghvi in 1983 in Vapi, Gujarat, with five psychiatric products.. Today it is listed at No.1 with instructions for 9 different classes of doctors in India. As of 18 April 2022, its market capitalization was 2,24,757 crores making it India's 24nd largest publicly traded company by market value and shares were traded at Rs.927.50.

Dr. Reddy's Laboratories:

Dr. Reddy's Laboratories is an Indian pharmaceutical company operating in Hyderabad, Telangana, India. The company was founded by Kallam Anji Reddy, who previously worked at the Indian Drugs and Pharmaceuticals Limited. Drs. Reddy's produces and sells a wide variety of medicinal plants in India and overseas. The company has more than 190 medicines, 60 active pharmaceutical ingredients (APIs) for drug production, diagnostic resources, critical care, and biotechnology products.

As of 18 April 2022, its market capitalization was 71,545.95 crores making it India's 70nd largest publicly traded company by market value and shares were traded at Rs.4271.00

The company made revenue of 17,460 INR during 2020

The study focuses on analyzing the financial performance of the selected companies and to interpret the result in a manner which helps the users to choose the best company based on financial analysis. For this purpose financial statements for the past 5 years of the company is used for conduct ration analysis to find out some of the key financial indicators necessary for fundamental analysis.

The main objective of the present study is to make a comparative analysis of three selected pharmaceutical sector industries with following specific objectives:

- To comparatively analyze the Balance sheet and Income statement of the Selected Companies with respect to important ratios for investment.
- To compare the share price of the selected companies over the past 5 years in NSE

2. REVIEW OF LITERATURE

1. Dr. Partap Singh Chahal(2018) in his paper titled "A comparative study of solvency and profitability position of sun pharmaceuticals industries ltd and Cipla Ltd" found out that Sun pharmaceuticals has better liquidity position and profitability than cipla during the period 2013-2017.
2. Muduli Rupal,Das Udayan (2018) in their article "Investment in pharma stock in BSE: A performance analysis" concludes that investor preference is given to stocks having higher growth in terms of capital appreciation and Dividend income. All the selected companies are concluded as preferred stock by the investors.

3. METHODOLOGY AND DATA

Ratio analysis:

Ratio analysis is a quantitative way of obtaining information about a company's finances, efficiency, and profitability by studying its financial statements such as balance sheet and revenue statement. Ration analysis is the basis for equity analysis. In ratio analysis the relationship between two variables is established to express the relationship in quantitative terms. The variables may either be dependent or independent. The study analyze the financial statements of the selected companies to arrive at the conclusion regarding the financially strong company via EPS, DPS, P/E ratio, ROI, Debt-equity ratio ,Dividend Yield Ratio,PEG ratio. The study also compares the financial statements of the selected companies.

Line charts:

The study uses Line charts to compare the equity share price of the selected companies to find out the company which had the highest growth during the period covered by the study.

A line chart is a graphical representation of an asset price action that connects a series of data points with a continuous line. This is the most basic type of chart used in finance, and only reflects the closing prices of protection over time.

The data for the study was obtained from the website of National stock exchange(NSE) www.nseindia.com and financial statements of the companies are collected from the website of the respective companies.

Research findings:

Earnings per share (EPS) is an indicator which shows how much an equity share in a given company earns for the given time period. It is arrived at by dividing the earnings available for equity shareholders by the number of outstanding equity shares.

$$\text{EPS} = \frac{\text{Earnings available for equity shareholders}}{\text{No. of outstanding equity shares}}$$

The result of EPS analysis from Tables 1,2&3 shows that the EPS of Dr. Reddy's Laboratories is the highest with 117.40 followed by Cipla Ltd and Sun pharmaceuticals industries respectively. When it comes to the EPS growth over the past 5 years Cipla is the clear leader with EPS growth rate of 138.17% over the past 5 years followed by Dr. Reddy's Laboratories and Sun pharmaceuticals industries which has negative EPS growth of 58.25%

Dividend per share (DPS) is a financial indicator which shows how much amount an equity share in a company receives as dividends in a given time period. It is calculated by dividing the dividend for equity shareholders by the number of outstanding equity shares.

$$\text{DPS} = \frac{\text{Dividend for equity shareholders}}{\text{No. of outstanding equity shares}}$$

The result of DPS analysis from Tables 1,2 & 3 shows that all companies had a steady Dividend growth in the period covered by this study. Dr. Reddy's Laboratories has the highest dividend per share with Rs.25 and followed by Sun pharmaceuticals and Cipla. When it comes to Dividend growth Cipla had 150% growth in dividend between the Study period and Sun pharmaceuticals with 125% growth.

Price-Earning ratio (P/E ratio) is used to understand the value of the company in terms of an investor's point of view; it can also be defined as how much money an investor is willing to spend in order to earn one rupees for the company. It is arrived by comparing the market value of the company's share to earning per share (EPS)

$$\text{P/E ratio} = \frac{\text{Market price share (MPS)}}{\text{Earnings per share (EPS)}}$$

From Table 1, 2 & 3 it is understood that investors prefer shares of Sun pharmaceuticals industries which is indicated by higher P/E ratio out of the selected companies. Study reveals diminishment in investors preference in Cipla Ltd share which is indicated by steady fall in P/E ratio. Study also indicates that all the selected companies P/E ratio is higher than industry P/E ratio of 22.

Return On Investment (ROI) is a helpful tool in finding out how much return the investment made in the company has produced over the given period of time. It can be derived from dividing Earnings Before Interest and Tax (EBIT) or Operating Profits by Capital employed in the business

Since the purpose of investment in the share market is to beat the return given by fixed deposit schemes in banks, it is necessary that a company should have more than 10% return on investment to attract investors.

$$\text{Return on Investment (ROI)} = \frac{\text{EBIT/Operating profits}}{\text{Capital employed in the business}} \times 100$$

From Table 1,2 & 3 it is understood that Return on Capital Employed of all the selected companies have grown during the period covered by the study. There is a constant increase in the earnings of the company which indicates that the entire industry has grown during the period covered by the study.

Debt - Equity ratio : It is a financial ratio that measures the composition of equity and debt in the company ; in other words how equity is available to pay off one rupees of debt. It can be found by dividing the Long term debt by shareholders equity.

Though debt-equity ratios vary from industry to industry, an ideal debt-equity ratio would be around 2 -2.5 times.

$$\text{Debt - Equity ratio} = \frac{\text{Long term debt}}{\text{Shareholders' equity}}$$

The Capital structure of the selected companies mostly prefers equity over debt which is clearly indicated by low debt equity ratio in all companies during the period covered by the Study shown in Table 1, 2, &3. In Cipla Ltd Debt to equity ratio is lowest compared to other selected companies and Dr. Reddy Laboratories Ltd gradually reduced their debt over the period covered in the study.

Dividend yield ratio: A dividend yield ratio expressed, how much a company pays as dividends for the given period compared to its stock value. It is calculated by dividing dividend per share(DPS) by Market price per share(MPS).

$$\text{DPS} = \frac{\text{Dividend per share (DPS)}}{\text{Market price per share (MPS)}} \times 100$$

Dividend yield was increased during the study period which is obvious given the increase in the DPS for all the selected companies and again Dr. Reddy's Laboratories has the highest Dividend yield in the industry.

Price/Earnings to Growth ratio(PEG) : This ratio shows the value of the equity shares of the company while factoring in the growth potential of the company in terms of its earnings. It is obtained by dividing P/E ratio by Earnings growth rate.

$$\text{Price/Earnings to Growth ratio (PEG)} = \frac{\text{P/E ratio}}{\text{Earnings growth rate}}$$

$$\text{Earnings growth rate} = \frac{\text{EPS of the current year} - \text{EPS of the previous year}}{\text{EPS of the previous year}} \times 100$$

PEG of Cipla for the past 5 Years = 1.53

PEG of Sun Pharmaceuticals industries for the past 5 Years = 1.27

PEG of Dr. Reddy's Lab for the past 5 Years Laboratories = 1.35

It indicates that cipla had highest growth price rate in the period covered by the study

Table 1: Key financial indicators of Cipla Ltd from year 2017-2021(Amt in Rupees)

Particulars	2017	2018	2019	2020	2021	Difference betwee(2017-2021)	Growth %
Earnings per share	12.52	17.53	18.97	19.19	29.82	29.82-12.52=17.53	$\frac{17.53}{12.52} \times 100$ =138.17%
Dividend per share	2.00	3.00	3.00	4.00	5.00	5.00-2.00 = 3.00	$\frac{3.00}{2.00} \times 100$ =150%
P/E ratio	47.35	31.01	27.91	22.05	33.50	33.50-47.35=(13.85)	$\frac{(13.85)}{47.35} \times 100$ =-29.25%
Return on Investment	9.36%	13.93%	15.63%	16.86%	16.75%	-	-
Debt-Equity ratio	0.06 times	0.02 times	0.01 times	0.00 times	0.00 times	-	-
Dividend yield ratio	.35%	.48%	.58%	1.81%	.55%	-	-

Table 2 : Key financial indicators of Sun Pharmaceutical Industries Ltd from year 2017-2021(Amt in Rupees)

Particulars	2017	2018	2019	2020	2021	Difference betwee(2017-2021)	Growth %
-------------	------	------	------	------	------	------------------------------	----------

Earnings per share	28.98	8.73	11.11	15.69	12.10	12.10-28.98= -16.88	$\frac{-16.88}{28.98} \times 100$ = - 58.25%
Dividend per share	3.50	2.00	2.75	4.00	7.50	7.5-4.00 = 3.5	$\frac{3.5}{3.5} \times 100$ =100%
P/E ratio	23.69	56.72	43.14	22.44	49.36	49.36-23.69= 25.67	$\frac{25.67}{22.69} \times 100$ =113.13%
Return on Investment	0.90%	6.68%	10.12%	13.45%	8.15%	-	-
Debt-Equity ratio	0.23	0.30	0.26	0.24	0.26	-	-
Dividend yield ratio	0.67%	0.30%	0.65%	1.37%	1.02%		

Table 3 : Key financial indicators of Dr. Reddy's Laboratories from year 2017-2021(Amt in Rupees)

Particulars	2017	2018	2019	2020	2021	Difference between(2017-2021)	Growth %
Earnings per share	76.83	57.10	117.48	121.96	117.40	117.40-76.83 =40.57	$\frac{40.57}{76.83} \times 100$ =52.80%
Dividend per share	20.00	20.00	20.00	25.00	25.00	25-20=5	$\frac{5}{20} \times 100$ = 25%
P/E ratio	33.78	36.51	23.62	25.57	38.50	38.50-33.78 =4.72	$\frac{4.72}{33.78} \times 100$ =13.98%
Return on Investment	12.07%	9.13%	14.37%	12.04%	15.84%	-	-

Debt-Equity ratio	0.20	0.22	0.07	0.07	0.07	-	-
Dividend yield ratio	0.46%	0.64%	0.76%	0.86%	0.74%	-	-

Line chart

Sun pharmaceuticals industries share price chart



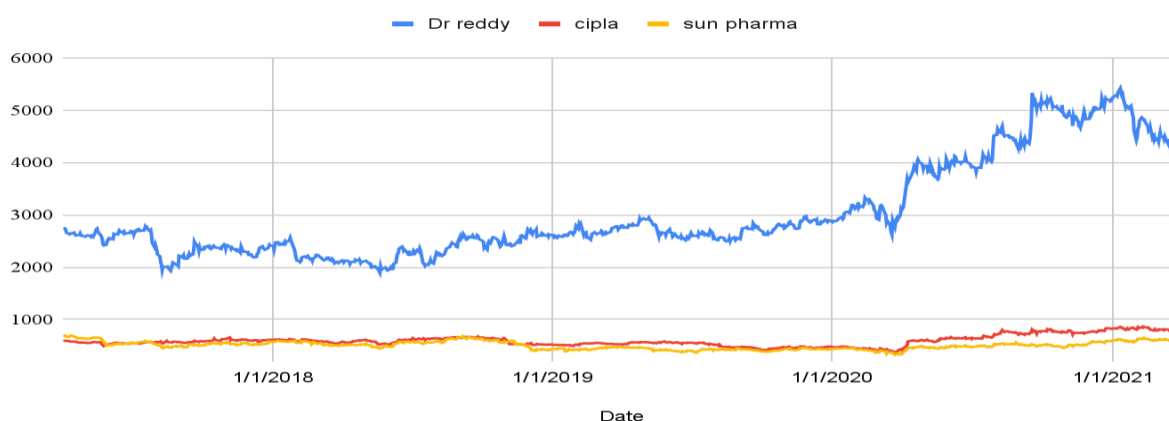
Dr Reddy's Labs share price



Cipla Ltd stock price chart



Share price comparison chart



The comparative study of share price of the company shows similar trend in share movement except for sun pharmaceutical industries which shows 10.24% loss in value during the period, while other selected companies made to grow during the study period, with cipla recorded growth of 37.04% and Dr. Reddy's Laboratories shows growth of 64.63%.

The Huge difference in share in the selected companies (i.e. between Dr. Reddy's laboratories and cipla, Sun pharmaceuticals) caused due to huge difference in number of equity shares in capital structure.

4. CONCLUSION

The present study discusses the Key financial ratios for investment and stock prices of the selected companies using ratio analysis and line chart. It is found that all the three companies have stable growth in Dividend per share, while the EPS of Cipla Ltd and Dr. Reddy's Laboratories shows a considerable growth during the period covered by the study. Sun pharmaceuticals industries shows negative growth in their EPS but it does not affect the company's dividend growth. The results Debt-Equity ratio clearly shows that all the selected companies have very minimal debt compared to Equity which is positive for investors point of view. P/E ratio of all the selected companies are above the industry average which indicates that investors prefer these companies over other companies in the industry. Return on investment for all companies shows positive growth during the period.

Thus here it is concluded that Cipla Ltd has better EPS growth, DPS growth and has reasonable Capital appreciation during the period covered by the Study. Investors can prefer shares of Cipla Ltd over Sun Pharmaceuticals Industries and Dr. Reddy's Laboratories is the motive is to earn dividend income, if the motive is to get higher capital appreciation on shares Dr. Reddy's Laboratories is preferred but share price of Dr. Reddy's laboratories is thrice compared to other selected companies which can be key factor for investors for some investors. However, the effectiveness of the use of financial 'analytics' measurement in the measurement of an entity and the financial position of an entity depends on the analytical ability of the analysts and the reliability of the financial data.

REFERENCE

- [1] Dr. Partap Singh Chahal(2018) -Associate Professor, Deptt. of Management Studies, Samalkha Group of Institutions (SGI), Samalkha, Panipat, Haryana-A comparative study of solvency and profitability position of sun pharmaceuticals industries ltd and Cipla Ltd - IAETSD JOURNAL FOR ADVANCED RESEARCH IN APPLIED SCIENCES ISSN NO : 2394-8442
- [2] Pramod Kumar Patjoshi1* and Girija Nandini2 1Associate Professor, School of Management, Centurion University of Technology and Management, Bhubaneswar, Odisha, India-Trends of Liquidity Management and their Impact on Financial Performance of CIPLA and SUN PHARMA -Indian Journal of Natural Sciences ISSN: 0976 – 0997
- [3] Jeevan Nagarkar, Prakash Rao-'Assistant Professor, Professor, Symbiosis Institute of International Business, Symbiosis International University, Pune, India
 - Equity Price Performance of the Pharmaceutical Industry A Comparative Analysis of Select Global and Indian Companies Using Stock Market Indices
- [4] <https://www.nseindia.com/get-quotes/equity?symbol=SUNPHARMA>
- [5] <https://www.nseindia.com/get-quotes/equity?symbol=CIPLA>
- [6] <https://www.nseindia.com/get-quotes/equity?symbol=DRREDDY>