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AN INTROSPECTION INTO THE FINANCIAL SUSTABILITY OF THE PHOENIX OF INDIAN PHARMACY SECTOR –DR. REDDY’S LABORATORIES LIMITED

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ABSTRACT

The Indian Pharmaceutical Industry today is in the front rank of India’s science-based industries with wide-ranging demand for bulk drugs, drug intermediates, pharmaceutical formulation, chemicals, tablets, orals and injectables. The main purpose of this study is to analyze the financial statements of Dr.Reddy’s Laboratories Limited and thereafter, provide an insight into the present financial sustainability of the Company, based on the past five years financial information available through its published Audited Annual Reports. The financial statement analysis applies Ratio analysis, Trend analysis and Cash Flow Analysis tools to analyse the profitability, liquidity, solvency position, as well as analysis of cash flow from various operating, financing, and investing activities of the business. The analysis and interpretation of the financial statements and of the financial reports are used by managers, shareholders, investors and all other interested parties to have an understanding of the company's financial state. Thus, the study attempts to present the strengths and weaknesses in the financials of Dr. Reddy’s Laboratories Limited and provide suitable suggestions.

Key words: Pharmaceutical Industry, Sustainability, Ratio Analysis, Trend Analysis, Profitability, Solvency and Liquidity.

INTRODUCTION

The Indian Pharmaceutical Industry today is in the front rank of India’s science-based industries with wide-ranging capabilities in the complex field of drug manufacture and technology. It ranks very high in the third world, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenous Indian pharmacy sector is playing a key role in promoting and sustaining development in the vital field of medicines. Indian Pharmacy Industry boasts of quality producers and many units have been approved by the regulatory authorities in USA and UK. International companies associated with this sector have stimulated, assisted and spearheaded this dynamic development in the past 53 years and helped to put India on the pharmaceutical map of the world. A successful pharmaceutical, once approved by medicines regulators such as the FDA in the United States and the EMA in the European Community, can then be sold.

The innovating company will have already patented the drug and thus has exclusive rights to sell the product until the patent expires. However, although patents in developed countries are usually granted for 20 years, the window of sales exclusivity will be significantly less, in most cases no more than 10 years. This is because the innovating company needs to patent the drug well before its first launch in order to protect its intellectual property.

“The Indian Pharmaceutical Industry is a success story providing employment for millions and ensuring that essential drugs at affordable prices are available to the vast population of the sub-continent”

- Richard Gerster.

STATEMENT OF PROBLEM

The development of industries depends on several factors such as finance, personnel, technology, quality of the product and marketing. Out of these, financial and operating aspects assume a significant role in determining the growth of industries. Financial statements by themselves do not give the full-fledged picture about the different facts of the company's financial position.

In this study entitled *“An introspection into the Financial Sustainability of the Phoenix of Indian Pharma sector Dr. Reddy's Laboratories Limited”*, an attempt is made to analyse the financial sustainability of Dr. Reddy's Laboratories Limited. In this regards the study has been made to analyze the financial status of the company using analytical tools in order to identify the strengths and weaknesses relating to the financial aspects for its growth and development and suggest suitable remedies.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:

- ☐ To study the financial sustainability of the company.
- ☐ To interpret the liquidity, profitability, and solvency position of the company.
- ☐ To analyze the trend movement of Sales, and Profit after tax.
- ☐ To examine the flow of Cash from Operating, Financing and Investing activities.
- ☐ To suggest the appropriate measures to ameliorate the financial efficiency process of the company.

SCOPE OF THE STUDY

The study entitled *“An introspection into the Financial Sustainability of the Phoenix of Indian Pharma sector Dr. Reddy's Laboratories Limited”* is to analyse the financial performance of Dr.Reddy's Laboratories Limited for the 5 year period 2016-17 to 2020-21. The study analyses the financial position of

the firm by using Tools such as - Ratio analysis, Trend analysis and Cash Flow Statement Analysis. The analysis and interpretation of the Financial statements in the study, aims to provide an insight to the management regarding the Profitability, Solvency, Liquidity, as well as, the Company's Cash flows from Operating, Financing and Investing activities. Thus, highlighting financial soundness of the Company, in the present and expected in near future. This study will also help the management to take managerial decisions on the new possible avenues and acts as a guide to undertake suitable corrective actions wherever required.

RESEARCH METHODOLOGY

Analysis of Data

The *Secondary data* is used for this study. The necessary data are collected from:

Period of Study

The study covers a period of five years commencing from 2016-17 to 2020-21.

REVIWE OF LITERATURE

Jain M.K.Garg Vikas and Shivranjan (2017)¹⁰ in their study on the "Liquidity and Profitability Analysis of Selected Steel Companies" made a financial analysis of Tata Steel, Steel Authority of India(SAIL), and Jindal South West Steel Ltd applied Sales based Profitability ratios to evaluate the performance of operating management and investment based profitability ratios to assess whether the Companies generated reasonable Return on capital employed (ROCE) and also applied a few prominent liquidity ratios for the analysis of short term solvency in assessing the liquidity position of the Companies under study.

K. Keerthi and S. Eswari (2020)¹³ analyses the overall financial position of the bank using ratio analysis. Various types of ratios include liquidity ratios, profitability ratios, solvency ratios are analysed in this study. This paper tells not only about the financial position of the firm but also helps to identify the problems and offer suggestions to improve its performance.

TREND ANALYSIS

Trend analysis is the process of comparing business data over time to identify any consistent results or trends. A strategy can be developed to respond to these trends in line with the business goals. Trend analysis helps us to understand how the Company's business has performed. It assists the management in forecasting the expected future of current business operations and practices, such that the management can preventive and corrective measures needed.

FORUMLA:

TREND % = CURRENT YEAR

*** 100**

BASE YEAR

SALES TREND ANALYSIS

The trend analysis of Sales is a useful tool to detect short-term changes in Revenue, growth and performance. It looks at historical revenue data to identify patterns used extensively in budgeting and forecasting and helps the Company to determine whether it meets its Revenue from operations goals, by providing an easy measurable way to track the Company's progress over the period of analysis.

TABLE 1 SALES TREND ANALYSIS

| Year | Sales (in Rupees Crores) | Trend % |
|---------|--------------------------|---------|
| 2016-17 | 17,460.00 | 100.00 |
| 2017-18 | 15,385.10 | 88.12 |
| 2018-19 | 14,202.80 | 81.34 |
| 2019-20 | 14,080.90 | 80.65 |
| 2020-21 | 15,470.80 | 88.61 |

INTERPRETATION

The Sales trend percentage moved downwards from 100 percent in 2016-17 to 88.12 percent, 81.34 percent and to 80.65 in the years 2017-18, 2018-19 and 2019-20 respectively. However, there has been a revival trend to 88.61 percent in the year 2020-21 on account of increased Net Revenue from Operations of INR 15,470.80 Crores during the year 2020-21.

CHART NO:1

SALES TREND ANALYSIS



FINDINGS

- The base year for the study is taken to be 2016 -17 and its trend percentage is 100. During the study period, the **Sales trend** percentage of Dr. Reddy's Laboratories Limited moved downwards from 100 percent in 2016-17 to 88.12 percent, 81.34 Percent and to 80.65 in the years 2017-18, 2018-19 and 2019-20 respectively. However, there has been a revival trend to 88.61 percent in the year 2020-21 on
- account of increased Net Revenue from Operations of INR 15,470.80 Crores during the year 2020-21.
- During the study period, the **Profit after tax (PAT) trend** has plummeted from 100 percent in the year 2016-17, to 44.44 percent in 2018-19, and thereafter rocketed to up to 95.09 percent in the year 2020-21, on account of reduced Operating costs.

SUGGESTIONS

1. The Sales Revenue of Dr Reddy's Labs Ltd, is high, but it was observed that the gross profit margin, which represents the amount remaining to satisfy operating, financial and tax costs, is low as compared to sales revenues due to the large amounts spent on the cost of goods sold. Therefore, the company should use consistent techniques and financial policies to reduce the cost of goods sold, which will help in both satisfying operating, financial and tax costs and earning more returns on earnings after taxes.
2. The Operating profit, which represents the profits earned from producing and selling products, is also low as compared to the sales volume of the company.
3. The Earnings after taxes, which are available for common stockholders, are also low as compared to the sales volume of the company. This is due to the effect of high expenses on the cost of goods sold and other expenses. These factors should be controlled by following accounting and financial policies.
4. Finally, though Dr. Reddy's Laboratories Limited is a profitable pharmaceutical Company and has good future opportunities, it has to look carefully at controlling the costs of goods sold, to reduce its Patent litigations expenses on account of developing generics drugs having unexpired Patents rights, to decrease .known liabilities and needs to avoid having difficult financial circumstances in future.

CONCLUSION

Dr. Reddy's Laboratories Limited is a pioneer in Indian and global Pharmacy sector and is ranked second amongst top Pharmacy Companies in India today. Their presence in the customized products domain is a strong one, with them occupying a dominant position in the market today. Ensuring the best possible

quality is Dr. Reddy's priority and a strong corporate value. Innovation is one of their core competencies. The result is high quality products that domestic and global population can rely on each and every time.

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