European Journal of Business & Social Sciences
Available at https://ejbss.org/
ISSN: 2235-767X
Volume 07 Issue 12
September 2019

Financial Statement Analysis Dr. Reddy's Laboratories Ltd.

N Gautham Jain, Master of Business Administration,

DR.K .Balaji, Associate Professor, Department of Master of Business Administration,

DR. Venkata Rangaiah, Professor, HOD, Department of Master of Business Administration,

St. Martin's Engineering College, Hyderabad, Telangana – 500100.

ABSTRACT

Financial Statement Analysis indicates how net revenue (money received from the sale of products and services before expenses are taken out) is transformed into net Income. Financial performance shows the managers and investors whether the Company made or lost money during the period being reported.

It helps in assessing of the viability, stability and profitability of a business. It is performed by the professionals who prepare reports using ratios that make use of information taken from financial statements and other reports.

Financial statements are a formal record of business financial activities which are as follows.

BALANCE SHEET:

It is a statement of financial condition, reports on a company's assets and liabilities and net equity as of a given point in time.

INCOME STATEMENT:

It is also referred as Profit or loss statement, reports on company results of operations over a period of time.

CASH FLOW STATEMENT:

It is a report on company's cash flow activities; particularly it's operating, investing and financing activities. Because these statements are often complex, Management discussion analysis is usually included

1. INTRODUCTION:

Financial statements are prepared primarily for decision making. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements

ISSN: 2235-767X
Volume 07 Issue 12
September 2019

is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions through analysis and interpretation of financial statements. Financial analysis 'the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account' There are various methods or techniques used in analyzing financial statements financial statements are an important source of information for evaluating the performance and prospects of firm, if properly analyzed and interpreted these statements can provide valuable insights into firm's performance. Analysis of financial statements is if interest to lenders, investors, security analyst, manager and others.

Financial statements analysis may be done for a variety of purposes, which may range from simple analysis of short term liquidity position of the form to a comprehensive assessment of the strengths and weakness of the firm in various areas, it is helpful in assessing corporate excellence, judging credit worthiness forecasting bond rating, evaluating intrinsic value of equity shares predicting bankruptcy and assessing market risk.

Financial statements:

Managers, shareholders, creditors and other interested groups seek answer to the following question about firm:

- What is the financial position of the firm at a given point of time?
- How has the firm performed financially over a given period of time?
- What have been the sources an d uses of cash over a given period?

To answer these questions, accountant prepares two principle statements, the Balance sheet and the profit and loss account, ancillary statement, the Cash Flow statement.

Analysis of financial statement

Analysis refers to the process of critical examination of the financial information contained in the financial statement in order to understand and make decisions regarding the operations of the firm. The analysis is basically study of the relationship among various financial facts and figure as given in a set of financial statements. Complex figure as given in this statements are dissected\broken up into simple and variable element and significant relationship are established between the elements of the same statements are different financial statements.

This process of dis section, establishing and identifying the financial weaknesses and strengths of the firm. It is indicative of two aspects of a firm i.e. the profitability and the financial position and it are what are known as the objectives of the analysis.

Procedure of Financial Statements Analysis

Broadly speaking there are three steps involved in the analysis of financial statements. There are:

- Selection,
- Classification,
- Interpretation.

The first step involves selection of information (data). The second step involved is the methodical classification of the data and the third step includes drawing of internees and conclusions.

The following procedure is adopted for the analysis and Interpretation of financial statements:

- The analyst should acquaint himself with the principles and postulates of accounting.
- The extent of analysis should be determined so that the sphere of work may be decided.
- The financial data given in the statements should be re-organized and re-arranged.
- A relationship is established among financial statements with the help of tools and techniques of analysis such as ratios, trends, common size, funds flow etc.
- The information is interpreted in a simple and understandable way. The significance and utility of financial data is explained for helping decision-taking.
- The conclusions drawn from interpretation are presented to the management in the form of reports.

RESEARCH PROBLEM:

The pharmaceutical industry is one of the sunrise sectors in India. Its continuing success rests on it rising to the many and diverse challenges faced in today's health care sector. Identifying new drug targets, attaining regulatory approval, and refining drug discovery processes are among the challenges that the pharmaceutical industry faces in the continual advancement of control and elimination of disease. Pharmaceutical statisticians are at the forefront in meeting many of these challenges; they have a vital role to play in the health care of the entire population.

As one of India's leading pharmaceutical companiesDr Reddy's has more than 190 medications ready for patients to take, 60 active pharmaceutical ingredients, for drug manufacture, diagnostic kits, critical care and biotechnology products. Reddy's manufactures and markets a wide range of pharmaceuticals in India and overseas. Hence, the study of the company's financials and working capital requirements is necessary to help the company grow further.

SIGNIFICANCE OF STUDY:

The pharmaceutical industry is a successful and rapidly growing worldwide industry. It has greatly aided medical progress. It contributes significantly to the economies of the countries all round the world where it is located, both as a major employer and as an export earner.With a billion plus population, the need for healthcare is universal for both Urban and Rural India. With an increasing incidence of life style diseases (approx. 33 percent of the total pie) and a growing geriatric and pediatric population, there is an emphasis on the need for specialty care. India has one of the highest private spending in healthcare as compared to other countries. Nearly 80% of the total spends. Government Initiatives like NRHM, NUHM and RSBY are working towards better healthcare for the poor. In recent years, despite the slowdown in the global economy, exports from the pharmaceutical industry in India have shown good buoyancy in growth. Dr. Reddy's Laboratories Ltd. is one of India's leading pharmaceutical companies with global ambitions and stands second in the top 10 pharmaceutical companies in India. It is located in Andhra Pradesh and hence is relevant to the study. Export has become an important driving force for growth in this industry with more than 50% revenue coming from overseas market.

OBJECTIVES OF THE STUDY:

- To analyze company's financial statements using comparative and common size analysis.
- To study the profitability of 'Dr. Reddy's Laboratories Ltd'.
- To study the liquidity position of the company.
- To derive findings, conclusions and suggestions to improve various ratios.

RESEARCH METHODOLOGY:

Research design or research methodology is the procedure of collecting; analyzing and interpreting the data to diagnose the problem and react to the opportunity in such a way that the costs can be minimized and desired level of accuracy can be achieved to arrive at particular conclusion.

The methodology used in the study for the completion of project and the fulfillment of the project objectives. The tools and techniques used for the study will be:

1. Comparative and Common Size analysis
2. Ratio Analysis

Sources of Information: Financial statements (5 years) of the Dr. Reddy's Laboratories Ltd. have been taken into consideration. (Secondary data)

SCOPE OF THE STUDY:

- The analysis is made by taking financial statements of 'Dr. Reddy's Laboratories Ltd' into consideration.
- The study is based on the information of last 5 years.
- The study is conducted purely to understand financial position of the company.
- The study attempts at analyzing the liquidity and profitability position of the company, as well as preparing common size balance sheet and common size income statement by interpreting the results.

LIMITATIONS OF THE STUDY:

Like every study this study also has some limitations, such as

- The data collected is completely restricted to the company. Hence, this analysis cannot be taken as universal.
- The scope is limited to the financial statements of the company and is limited to the financials, which have been published by the company and has been taken as a representative of the study.

Detailed study of the topic is not possible due to the limited size of the project.

2. LITERATURE SURVEY

Ms. Subhedar [1] (2006-2007) a study was done by her titled **"R & D ACCOUNTING AND REPORTING AND RATIO ANALYSIS OF DR.REDDY S LABORATORIES LTD."** Dr. Reddy s laboratories Ltd. the second largest

Pharmaceutical Company mainly focuses on R & D division for reducing its costs. This project helped to understand the company's R & D accounting and reporting and its financial position by using Ratio Analysis.

In respect of R & D accounting and reporting Dr. Reddy s laboratories Ltd. is found considerably good in comparison with other companies. R & D expenditure constitutes major part of the turnover and are treated as intangible assets. In respect of Ratio Analysis Return on assets (ROA) return on total capital employed and return on shareholders equity how increased by about 35% from 1995-96 to 2005-05 indicating an excellent overall performance by the management. The current ratio (approx. 1.5) and quick ratio (approx. 1.3) indicates an effective liquidity management by Company. The Net profit Margin has been around 15% in the last three financial years reflecting a better earning for the shareholders. The high Debt equity, debt assets and debt to total capital ratio indicates a moderate existence of equity and capital employed. The company maintains a modest interest coverage ratio so that it can easily meet its interest burden even if EBIT suffers a decline.

3.FINDINGS OF THE STUDY

From the above comparative and common size analysis we can say that:

- The company has been able to maintain an appropriate level of working capital as the current assets are higher than current liabilities. However, only in the year 2013-12 there has been a decrease mainly because of the decrease in sundry debtors and cash balance in current assets and an increase in current liability.
- They have been able to use their idle funds effectively to make productive investments as there has been an increase in investment in 2015-14.
- The fixed assets of the company is increasing as the company is encouraging new technology by adding assets for large production.
- The company has been effective in increasing its sales in all the 5 years.
- It has been able to maintain profitability as it has been generating appropriate levels of net profit.

The overall position of the company is satisfactory over the 5 years

The analysis of the ratios suggests:

- The current liabilities have been increasing with the size of the business.

European Journal of Business & Social Sciences
Available at https://ejbss.org/
ISSN: 2235-767X
Volume 07 Issue 12
September 2019

- Fixed assets have increased, as well as the long term borrowings have increased which implies that the long-term loan is taken to finance the fixed assets.
- The company has been able to maintain a satisfactory current ratio for all the 5 yrs as it has been able to maintain an adequate level of current assets to meet its current liability as and when they mature.
- All the liquidity ratios have increased from 2012-2016 except for the year 2014 in which either the ratios are same as last year or decreased in comparison to preceding years.
- The gross profit ratio has gradually increased from 2012-2016 whereas the net profit ratio shows an irregular pattern of ups and downs year after year. The price of raw material is increasing which in turn resulted in increase of cost of production and effected the profitability of company.
- Return on assets is stable in from 2013-2015 and has increased by around 7% in 2016 which gives a good sign to the investors to invest into the company. The company has been more affective in utilizing its assets to generate sales.
- The return on capital employed has increased from 2012-2014 but this ratio experiences a fall in 2015. However, the company has made attempts to increase this ratio which is evident by an increase of 1% in 2016 in comparison to the previous year.
- There has been a slight decline in inventory turnover ratio in the year 2016. This could be the result of slow moving stock.
- The debtor turnover ratio or the receivable ratio is shows an irregular trend which indicates inefficient management of debtors and ineffective collection practice.

The fixed assets turnover ratio has gradually decreased. This shows that company has not been effective in using the investment in fixed assets to generate revenues

4. SUGGESTIONS

- Dr. Reddy's is one of the most promising companies in India. The company has a bright future because of its scientific and flexible management approach.
- 2012-2016 is considered as the period of study.
- The methodology used is financial statement analysis and ratio analysis.
- The company is growing year after year.
- Quality of earnings has been good with minimum dependence on other income.
- The recession is passing off starting early 2013.

- The company has shown strong increase in sales.
- The company maintains modest ratios.

The overall position of the company remains satisfactory

5. CONCLUSION

- The gross profit of the company is increasing year after year but it is not the same with net profit. To improve profits, the company needs to cut down on expenses by applying more effective costing and budgeting techniques.
- From ratio analysis, one can infer that the overall position of the company is good and all the ratios have improved.
- 2013-2014 seems to be the most profitable year as almost all the ratios in this year stand strong in comparison to other years considered in the study.
- The high liquidity ratios reflect a very strong short-term financial structure. The company should maintain current assets in the form of receivables and cash rather than in inventory to meet its current obligation efficiency.
- On a long term, the company can be looked as good investment opportunity.

REFERENCES

- http://www.valuenotes.com
- http://www.drreddys.com
- http://www.moneycontrol.com