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**NEED/IMPORTANCE OF THE STUDY**

**STATEMENT OF THE PROBLEM**

**OBJECTIVES**

**HYPOTHESIS (ES)**

**RESEARCH METHODOLOGY**

**RESULTS & DISCUSSION**

**FINDINGS**

**RECOMMENDATIONS/SUGGESTIONS**

**CONCLUSIONS**

**LIMITATIONS**

**SCOPE FOR FURTHER RESEARCH**

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**COMPARATIVE FINANCIAL STATEMENT ANALYSIS OF DR. REDDY'S LABORATORIES AND CIPLA LTD.**

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**ABSTRACT**

Finance is very essential for the smooth running of the business. Finance controls the policies, activities and decision of every business. The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of a company's earnings, and the strengths and weaknesses of its financial position. Through a careful analysis of its financial performance, the organization can identify opportunities to improve performance of the department or organization. In this context an attempt has been made to compare and analyze the financial performance of Cipla Ltd & Dr.Reddy's laboratories Ltd to understand how management of finance plays a crucial role in the growth. The study aims to analyze and compare the financial statements of both Cipla Ltd & Dr.Reddy's laboratories Ltd from the year 2010- 2011 to 2014-2015. The tool used for this study is ratio analysis, t-test and trend analysis. Analysis of liquidity measures indicates that current ratio has been good and shows a satisfactory position. It is noticed that Dr. Reddy's Laboratories is better in liquidity position when compared that of Cipla Ltd. Analysis of debt management measures, that debt gearing ratio indicates Cipla Ltd is more risky than Dr. Reddy laboratories Ltd. The study concludes that Dr. Reddy Laboratories is the best performer when compared to Cipla Ltd.

**KEYWORDS**

comparative financial analysis, investment position, liquidity, pharmaceutical and share capital.

**INTRODUCTION**

The Indian Pharmaceutical industry is in the front rank of India's science based industries with wide ranging capabilities in the complex field of Drug manufacture and technology. Pharmaceutical Industry in India is one of the largest and most advanced among the developing countries. The growth of the pharmaceutical industry in India is quite phenomenal.

Finance is very essential for the smooth running of the business. Finance controls the policies, activities and decision of every business. The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Ratios are additional tools for analyzing financial statements. Comparative statements are more significant for evaluating a company than the single-year statements.

**REVIEW OF LITERATURE**

- The work of **Keshab Das (2003)<sup>1</sup> on TRIPS** and its political implication has been referred by the researcher to get the insights into the matter.
- **Professor Robert Tancer (1999)<sup>3</sup>** has worked on Indian Pharmaceutical Industry as an investment destination. Robert Warren has worked for the pharmaceutical industry.
- **Dr. Akhileshwar Sharma on the topic "Profitability Analysis of Drugs and Pharmaceutical Companies in India" in May (1992).<sup>2</sup>** This study tried to find out the profitability position of various selected units during that period of time using several criteria.
- The study was emphasized on the working capital management, entitled **"Working Capital Management of Pharmaceutical Industry in India" by Dr. Shashi A. Jain in the year (1990).<sup>4</sup>** The study tried to make an in-depth analysis of the working capital management of the selected pharmaceutical companies for a period of time.

**STATEMENT OF THE PROBLEM**

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The ability of an organization to analyze its financial position is essential for improving its competitive position in the market place. Through a careful analysis of its financial performance, the organization can identify opportunities to improve its performance. In this context an attempt has been made to compare and analyze the financial performance of Cipla Ltd & Dr.Reddy's laboratories Ltd to understand how management of finance plays a crucial role in the growth.

**OBJECTIVES OF THE STUDY**

The study has the following objectives.

- To analyze the short term financial position of Cipla Ltd & Dr. Reddy's laboratories Ltd for a selected period.
- To analyze the long term financial position of Cipla Ltd & Dr. Reddy's laboratories Ltd for a selected period.
- To project the share capital and investment position of Cipla Ltd & Dr. Reddy's laboratories Ltd.
- To compare the financial position of both Cipla Ltd & Dr. Reddy's laboratories Ltd.

**SCOPE OF THE STUDY**

The study covers almost the entire area of the financial operations. The study aims to analyze the comparative financial statement of both Cipla Ltd & Dr.Reddy's laboratories Ltd from the year 2010- 2011 to 2014-2015. The tool used for this study is ratio analysis, t-test and trend analysis. The financial records of these companies is obtained from company's annual report.

**HYPOTHESIS**

1. There is no significant difference between Dr.Reddy and Cipla Ltd regarding current ratio.



2. There is no significant difference between Dr.Reddy and Cipla Ltd regarding Quick ratio.
3. There is no significant difference between Dr.Reddy and Cipla Ltd regarding Absolute liquid ratio.
4. There is no significant difference between Dr.Reddy and Cipla Ltd regarding Debt Equity ratio.
5. There is no significant difference between Dr.Reddy and Cipla Ltd regarding Debt to assets ratio.
6. There is no significant difference between Dr.Reddy and Cipla Ltd regarding Equity ratio.
7. There is no significant difference between Dr.Reddy and Cipla Ltd regarding Current assets to equity ratio.
8. There is no significant difference between Dr.Reddy and Cipla Ltd regarding Capital gearing ratio.

## RESEARCH METHODOLOGY

Secondary data has been collected from various journals and websites like moneycontrol.com, bseindia.com and Cipla Ltd and Dr. Reddy's laboratories websites.

### ➤ PERIOD OF THE STUDY

A period of 5 years from (2010-2011) to (2014-2015) has been covered for the study.

### ➤ TOOLS USED FOR THE STUDY

The following tools have been applied in the study

### ➤ RATIO ANALYSIS

### ➤ t-TEST FOR EQUALITY OF MEANS ANALYSIS

### ➤ TREND ANALYSIS

## ANALYSIS AND FINDINGS

### RATIO ANALYSIS

TABLE - 1: SHORT TERM RATIOS

Year	Dr. REDDY			CIPLA LTD.		
	Current ratio	Quick ratio	Absolute liquid ratio	Current ratio	Quick ratio	Absolute liquid ratio
2014-15	3.48	2.66	0.43	2.45	0.96	0.04
2013-14	3.41	2.61	0.33	2.62	1.08	0.03
2012-13	2.50	1.79	0.42	2.96	1.27	0.08
2011-12	2.36	1.60	0.49	2.85	1.32	0.05
2010-11	1.93	1.22	0.04	2.95	1.35	0.07

Source: Computed data

- The results of ratio analysis revealed that the current ratio has been good and shows a satisfactory position in both the companies. Dr.Reddy's Laboratory's Quick ratio (2.66) is higher than Cipla Ltd (0.96) during 2014-2015. So short term liquidity is higher in Dr.Reddy's Laboratory when compared to Cipla Ltd. In Absolute liquid ratio, Dr.Reddy's Laboratories (0.43) is higher than Cipla Ltd (0.04) during 2014-2015. Liquidity position is good in Dr.Reddy's Laboratories when compared to Cipla Ltd.

TABLE - 2: LONG TERM RATIOS

Year	Dr.REDDY				CIPLA LTD			
	Debt equity ratio	Debt to assets ratio	Equity ratio	Capital gearing ratio	Debt equity ratio	Debt to assets ratio	Equity ratio	Capital gearing ratio
2014-15	0.29	0.23	0.01	106.50	0.12	0.11	0.01	239.69
2013-14	0.29	0.22	0.01	65.46	0.09	0.08	0.01	0.00
2012-13	0.20	0.17	0.01	24.26	0.11	0.10	0.02	16.92
2011-12	0.23	0.19	0.01	169.60	0.00	0.00	0.02	16.06
2010-11	0.24	0.19	0.01	282.00	0.07	0.06	0.02	54.43

Source : Computed data

- Dr. Reddy's Laboratories highest debt equity ratio of 0.29 is found in the year 2014-15. The value of debt equity ratio is constant for two years and shareholders fund is more than that of total debt indicating much satisfactory position.
- In the year 2014-2015 Dr. Reddy's Laboratories debt to asset ratio is 0.23 and in Cipla Ltd, the ratio is 0.11.
- In Equity or Proprietary ratio of Dr.Reddy's Laboratory is constant for all the five years but in Cipla Ltd the ratio is 0.2 for three years 2012-13, 2011-12, 2010-11.
- In the year 2014-2015 the capital gearing ratio is 106.50 and in Cipla Ltd the ratio is 239.69. Thus Cipla Ltd is highly geared when compared to Dr.Reddy's Laboratories.

### t-TEST

T-Test for equality of means has been applied to check the difference in ratios between Dr.Reddy and Cipla Ltd. Null hypothesis has been framed to test the significant difference in the ratios between Dr.Reddy and Cipla Ltd.

$H_0$  = "There is no significant difference between Dr.Reddy and Cipla Ltd regarding various ratios"

TABLE - 3: t-TEST FOR EQUALITY OF MEANS FOR EQUALITY OF MEANS

Ratios	T	Df	Sig. (2-tailed)	Significance
Current ratio	-.094	8	.928	Not Significant
Quick ratio	2.651	8	.029	Significant
Absolute liquid ratio	3.589	8	.007	Significant
Debt Equity ratio	6.211	8	.000	Significant
Debt to assets ratio	5.859	8	.000	Significant
Equity ratio	-2.449	8	.040	Significant
Current assets to equity ratio	3.715	8	.006	Not Significant
Capital gearing ratio	1.013	8	.341	Not Significant

Level of significance = 0.05

- The t-test result shows that there is significant difference between Dr.Reddy and Cipla Ltd regarding Quick ratio, absolute liquid ratio, debt equity ratio, debt to assets ratio and equity ratio. There is no significant difference between Dr.Reddy's Laboratories and Cipla Ltd regarding current ratio, current assets to equity ratio and capital gearing ratio.

### TREND ANALYSIS

Trend analysis is the method of analyzing financial position of a business on the basis of changes in the items of financial statement of successive years in comparison to a specific date or period of commencement of study.

TABLE - 4 : SHARE CAPITAL

Dr. REDDY			CIPLA LTD		
Year	Actual value	Trend value	Year	Actual value	Trend value
2011	84.6	84.62	2011	160.58	160.58
2012	84.8	84.78	2012	160.58	160.58
2013	84.9	84.92	2013	160.58	160.58
2014	85.1	85.07	2014	160.58	160.58
2015	85.2	85.21	2015	160.59	160.59
2016		85.36	2016		160.59
2017		85.50	2017		160.59
2018		85.65	2018		160.60

Source: Computed data

**DR.REDDY'S LAB:** The share capital in the year 2010-11 is 84.6 crores and it has been increased to 85.2 crores in the year 2014-15. The trend value for the years 2011-12 and 2013-14 are less than the actual value of share capital. It shows the satisfactory trend in these periods. While the trend value of share capital is more than the actual value in the periods 2010-11, 2012-13 and 2014-15. In case of future prediction, the estimated share capital amounts to 85.36 crores in the year 2015-16, 85.50 crores in the year 2016-17 and 85.65 crores in the year 2017-18.

**CIPLA LTD:** The share capital in the year 2010-11 is 160.58 crores and it has been increased to 160.59 crores in the year 2014-15. The trend value and actual value are the same for the years 2010-11 to 2014-15 indicating fair position in these periods. In case of future prediction, the estimated share capital amounts to 160.59 crores in the year 2015-16, 160.59 crores in the year 2016-17 and 160.60 crores in the year 2017-18.

TABLE - 5: INVESTMENTS

Dr. REDDY			CIPLA LTD.		
Year	Actual value	Trend value	Year	Actual value	Trend value
2011	2,462.00	2171.66	2011	570.65	392.59
2012	2,477.70	2368.46	2012	1,035.15	1346.66
2013	2,379.20	2717.62	2013	2,601.82	2469.86
2014	2,806.50	3167.24	2014	3,587.13	3473.22
2015	3,862.30	3693.47	2015	4,421.10	4457.40
2016		3976.41	2016		5504.80
2017		4442.16	2017		6541.53
2018		4876.86	2018		7541.84

Source: Computed data

The above table shows the Investments from the year 2010-11 to 2014-15 and trend value estimated from the year 2010-11 to 2017-2018 for Dr.Reddy and Cipla Ltd.

**DR. REDDY'S LAB:** The Investments in the year 2010-11 is 2462.0 crores and it has been increased to 3862.30 crores in the year 2014-15. The trend value for the years 2011-12 and 2013-14 are less than the actual value of investment. It shows the satisfactory trend in these periods. While the trend value of investment is more than the actual value in the periods 2010-11, 2012-13 and 2014-15. In case of future prediction, the estimated investment amounts to 3976.41 crores in the year 2015-16, 4442.16 crores in the year 2016-17 and 4876.86 crores in the year 2017-18.

**CIPLA LTD.:** The Investments in the year 2010-11 is 570.65 crores and it has been increased to 4421.10 crores in the year 2014-15. The trend value and actual value are the same for the years 2010-11 to 2014-15 indicating fair position in these periods. In case of future prediction, the estimated investment amounts to 5504.80 crores in the year 2015-16, 6541.53 crores in the year 2016-17 and crores 7541.84 in the year 2017-18.

## SUGGESTIONS

- Dr. Reddy's liquidity position is very high which indicates that there is requirement of diversion of liquid assets into very short term investment and income can be generated from such investment.
- Cipla Ltd's equity ratio is appropriate but its constancy should be maintained.
- Cipla Ltd is found to be more geared as it employs more debt to finance its operations than Dr. Reddy. As such Cipla Ltd makes a lot of interest expense and is expose to higher risk in economic down turn than Dr. Reddy
- Overall performance of Dr. Reddy Laboratories is reported best when compared to Cipla Ltd, therefor Cipla Ltd has to improve its overall performance to meet the competition.

## CONCLUSION

The Indian pharmaceuticals market is the third largest in terms of volume and thirteen largest in terms of value. The top ten companies including Cipla, Dr. Reddys Labs, Lupin, Aurobindo Pharma, Cadila Health, Glenmark, Torrent Pharma, GlaxoSmithKline, Jubilant Life, Ipca Labs. Dr. Reddy's Laboratories and Cipla Ltd occupy 70% to 80% of the Indian pharmaceutical market space.

Analysis of liquidity measures indicates that current ratio has been good and shows a satisfactory position. Quick and cash ratio measures that Dr. Reddy's pharmaceutical company is better than Cipla Ltd. So it is noticed that Dr. Reddy's Laboratories is in better condition of liquidity position compared that of Cipla Ltd.

Analysis of debt management measures, that debt gearing ratio indicates Cipla is more risky than Dr. Reddy Lab.

It is concluded that Dr. Reddy Laboratories is the best performance compared to Cipla Ltd.

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