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FINANCIAL PERFORMACE ANALYSIS OF DR REDDY'S LABORATORIES LTD.

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ABSTRACT

Financial statement analysis is basically a findings of how a corporation is operating through the analysis of the outcomes of business operations. By analysing the financial statements one can determine if a company is earning a reasonable return on its capital investments and also it guides the creditors, investors, and management to know whether the market is expanding or contracting. In simple terms , reducing risk and uncertainty in decision-making is financial statement analysis. To assess and estimate the firm's future performance, risk and uncertainty must be eliminated by using tools and processes. This study's main objective is to evaluate Dr Reddy's Laboratories Ltd.'s profitability ratios from 2017–18 to 2021–22 using time-series analysis. Dr Reddy's Labs Ltd. is performing well overall in terms of profitability, its market is expanding, it generates a respectable return on investment, and it has promising prospects. Also, it is discovered that there is a statistical connection between the performance of the company's gross profit margin ratios, operational profit margins, net profit margins, and return on equity ratios. The company is successful and has bright possibilities for the future, but in order to avoid future financial difficulty, it must pay particular attention to more successfully maaging its cost of goods sold and cutting its expenses.

Keywords: Financial Performance Analysis And Financial Ratios Liquidity And Profitability Analysis.

I. INTRODUCTION

The basic goal of financial analysis is to provide information about a company that decision-makers can utilise to make decisions. The decision-makers who are interested in assessing the firm's financial position and forecasting its future course are known as users of financial information. A wide range of users and decision-makers can utilise financial statement analysis to forecast insolvency and failure, predict net income, and evaluate past performance and current conditions. Several approaches are used while analysing financial data in order to emphasise the comparative and relative relevance of the data provided and to evaluate the firm's status. The study of financial statements is built on ratios. The two primary inputs to ratio analysis are the company's balance sheet and profit and loss account. Examining and using financial ratios is a growingly important area of financial research and practise. Financial ratios are of interest to a number of stakeholders, including shareholders, creditors, and the management of a company. A business enterprise's ability to create satisfactory revenue is crucial to its long-term viability. Reviewing a company's historical profits may help creditors, investors, and other parties make better decisions. For creditors, it is crucial to understand how the profitability condition affects the liquidity position. Profitability ratios are used to show the relationship between profit, turnover, capital employed, etc. The focus of the financial analysis in this study will be Dr Reddy's Laboratories Ltd. **(Viswanatha Reddy C, 2013)**

COMPANY PROFILE:

Dr. Reddy's Laboratories Ltd. is a pharmaceutical company based in India, with operations worldwide. The company was founded in 1984 by Dr. Anji Reddy, a renowned scientist and entrepreneur, and has since grown to become one of the largest pharmaceutical companies in India. It is engaged in the research, development, and manufacturing of a wide range of generic and branded pharmaceuticals, as well as active pharmaceutical ingredients (APIs). The company's products cover a variety of therapeutic areas, including cardiovascular, gastrointestinal, oncology, pain management, and dermatology.

STATEMENT OF THE PROBLEM:

The research especially focuses on the analysis of profitability ratios of Dr Reddy's Laboratories Ltd.,in which the performance of the corporation can be divided into a variety of qualities using ratio analysis as a method of performance measurement, including profitability, liquidity, solvency, etc.. The advantage of this study is that it makes it easier to identify significant, unique, and evolving trends and take appropriate action. The nature of financial ratio information, such as its distributional properties, industry norm, or target selection, is little understood, despite the fact that ratios generated from financial statements are widely used to assess performance and predict consequences. Given the recent ups and downs we can identify the factors that contribute to Dr Reddy's Lab's success by analysing its financial performance over the last five years using financial ratio analysis. Ultimately, by analysing the ratios, we can predict if the profitability ratios of the company expanding or contracting and to estimate the future growth of Dr Reddy's Lab's in upcoming years.

II. LITERATURE REVIEW

A study on the analytical and statistical characteristics of financial ratios has arisen in recent years. In addition, the validity of the "proportionality assumption" and the characteristics of aggregate or "industry ratios" are addressed. The approach taken in this study suggests that normalcy will typically be the exception rather than the rule and that accounting ratios will be non-linear functions of time. **Mark Tippett (2012).**

A case study on evaluation of the results of business operations, as well as an explanation of how well a business is performing, are based on financial statement analysis . This study is to assess Dr Reddy's Laboratories Ltd.'s profitability ratios using time-series analysis for the years 2004–2005 to 2012–2013. Dr Reddy's Labs Ltd. is performing well overall in terms of profitability, its market is expanding, it generates a respectable return on investment. **Viswanatha Reddy (2013).**

Companies are under pressure to continue operating effectively during the pandemic. Hence, it is possible that businesses will use window dressing to try to meet investors' expectations. The goal of the study is to investigate how financial ratios affected fraudulent financial reporting during the Covid-19 outbreak.This study makes a theoretical contribution by demonstrating the significance of understanding how financial ratios affect fraudulent financial reporting during the Covid-19 pandemic. **Nurhastuty Wardhani (2022).**

A study on financial ratios are used by all types of firms, however retail math is useful for merchandise companies. These indicators can be used to further examine retail firms, evaluate the state of all enterprises, and identify their respective strengths and shortcomings. This chapter looks at criteria that can be used to determine if the example company has enough cash on hand to pay its bills in the short term, if its debt and commitments are too great to meet expenses, if it is making a profit, and if it is making effective use of its resources. **Rhoda Okunex (2022).**

A research based on the purpose to do a financial ratio analysis and then come to a number of conclusions. They allow us to emphasise that the business has rules for the implementation and management of its plan. The various ratios support various regions, thus each one should be examined separately. This study should be viewed from the perspective that it is an academic example. Financial ratios can be used to provide a broad overview of a company's status. **EduardoSa e Silva (2022).**

Prior studies have shown that a company's decision to implement International Financial Reporting Standards (IFRS) may alter many different factors, including accounting quality, financial statement comparability, transparency, cost of capital, overseas investments, and financial ratios. This study's primary goal was to assess how the introduction of IFRS affected the financial ratios of Lithuanian state-owned enterprises. The financial ratios (profitability, liquidity, and leverage) from the financial statements of 15 state-owned enterprises that embraced IFRS in the previous ten years were the subject of the study. **Kristina Rudzioniene (2022).**

Ratio analysis, which is based on the balance sheet and income statement calculations, is a numerical way to comprehend specifics in any financial accounts. Banks can assess their financial performance using financial ratios. Ratios determine the relationship between two or more balance sheet, profit and loss, cash flow, and other parameters. This essay attempts to analyse some important SBI financial ratios**. Dr. Satyanarayana Chadaram (2022)**.

This study shows whether there was a significant difference between data from 2018-2019, before the pandemic, and data from 2020-2021, after the pandemic, in order to study the effects of the Covid19 Pandemic era on the financial ratios of non-life insurance firms. This research states that it was seen that while the profitability of non-life insurance companies increased, their liquidity decreased. However, it was found that this increase and decrease were not significant in terms of pre-pandemic and post-pandemic periods. **Aysegul Ertugrul (2022)**

The researcher in this study examined 20 financial ratios from the five cooperative banks in the Indian state of Uttarakhand: Kurmanchal Urban Cooperative Bank, Dehradun District Cooperative Bank, Nainital District Cooperative Bank, and Almora Urban Cooperative Bank. These 20 financial ratios include profitability ratios, activity ratios, capital structure ratios, liquidity ratios, and other significant ratios. Data was gathered from these banks' corporate headquarters. This study is useful for the understanding of the financial position, financial structure, average employees in each branch, and business per employee of the cooperative banks in Uttarakhand. **Dr. Vijay Laxmi Sharma (2022).**

A study shows that ensure ongoing operations and boost anticipated expansion, the corporation must make a profit. Financial measures or indicators are required to determine whether a company has succeeded in accomplishing these objectives. Every company must analyse its financial statements in order for management to understand how the business performed that year. The major goals of this study are to ascertain the financial standing, compute, and analyse the financial ratios of the organisation.The liquidity ratio, solvency ratio, and profitability ratio are the ratio analyses used in this study. The findings reveal that although the company has been deemed liquid, it has not been able to maximise income by utilising its existing assets and equity.**Titik Purwaningtyas(2023).**

III. OBJECTIVES

1) To evaluate the financial performance and solvency of the company from 2017–18 to 2021–22 through "Ratio Analysis".
2) To determine if the company is using the proper valuation methodology.
3) To look into how Dr Reddy's Laboratories Ltd. performs in relation to various profitability ratios.
4) To assess the company's growth and financial stability in terms of its performance, solvency, profitability, turnover over the years.
5) To assess and evaluate whether the company would be a profitable venture for the investors.

IV. RESEARCH METHODOLOGY

The core objective of the study is to analyse and evaluate the financial performance of the company. The period undertaken for study is the past five years (2018 - 2022). In order to evaluate the financial performance of the company "Financial Ratio Analysis "is used as a research methodology.

FINANCIAL TOOLS:

Gross Profit Margin Ratio

Operating Profit Ratio

Net Profit Ratio

Earnings Per Share (EPS)

Return On Total Assets (ROTA)

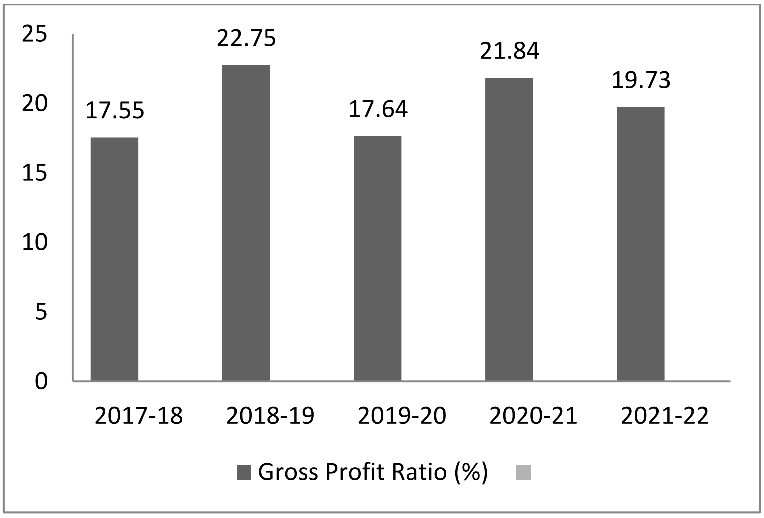
Return On Equity (ROE)

1. GROSS PROFIT MARGIN RATIO:

Gross Profit Margin Ratio = Gross Profit /Sales *100.

The gross profit margin tells you what your business made after paying for the direct cost of doing business.

Year	Gross Profit Ratio (%)
2017-18	17.55
2018-19	22.75
2019-20	17.64
2020-21	21.84
2021-22	19.73

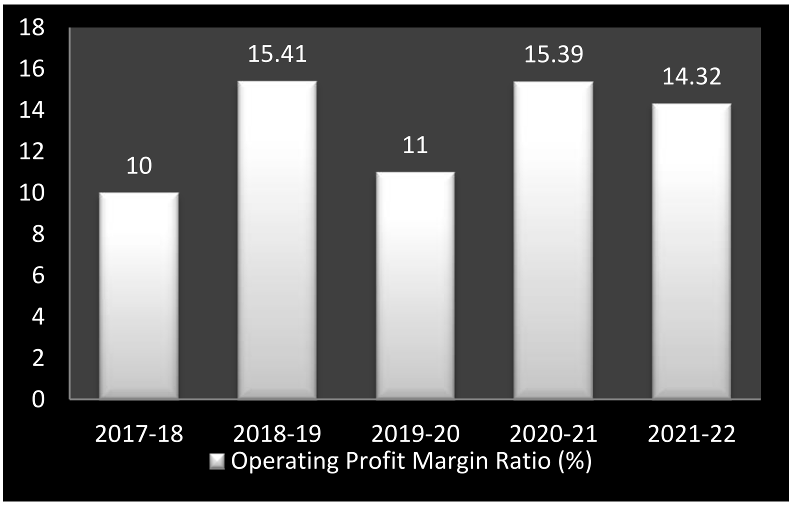


2. OPERATING PROFIT RATIO :

Operating Profit Ratio = Operating Profit / Sales *100

The ratio known as the operational profit ratio is used to define the relationship between operating profit and net sales.

Year	Operating Profit Margin Ratio (%)
2017-18	10
2018-19	15.41
2019-20	11
2020-21	15.39
2021-22	14.32

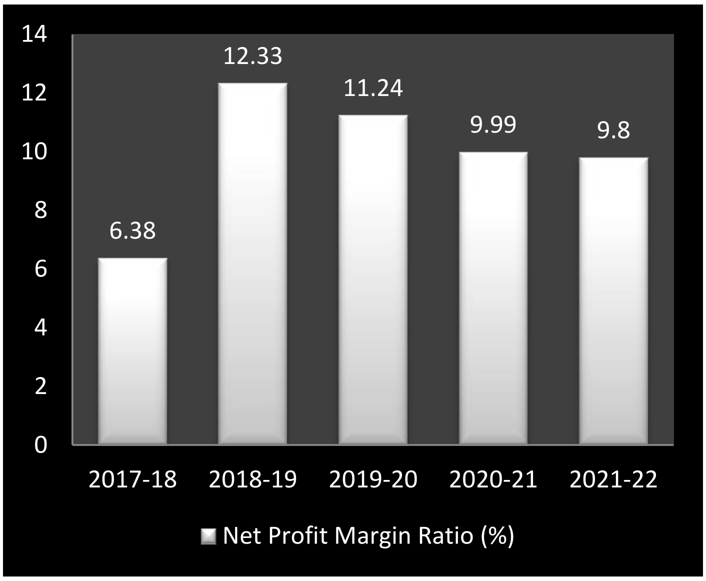


3. NET PROFIT RATIO:

Net Profit Ratio = Earnings After Tax (EAT)/Sales *100

The net profit ratio compares the company's earnings to the total revenue received.

Year	Net Profit Margin Ratio (%)
2017-18	6.38
2018-19	12.33
2019-20	11.24
2020-21	9.99
2021-22	9.8

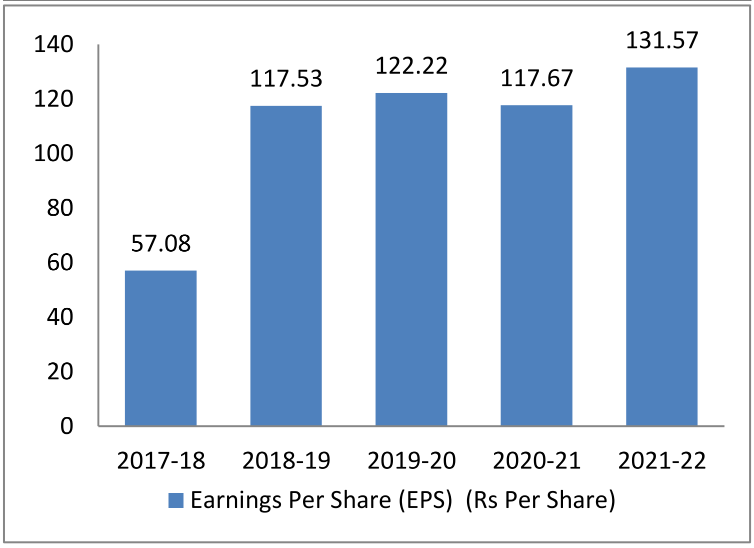


4. EARNINGS PER SHARE (EPS) :

Earnings Per Share (EPS) = Earnings After Tax (EAT)/No Of Equity Shares Outstanding

The Earnings Per Share (EPS) of a company is its net profit divided by the number of outstanding common shares.

Year	Earnings Per Share (EPS) (Rs Per Share)
2017-18	57.08
2018-19	117.53
2019-20	122.22
2020-21	117.67
2021-22	131.57

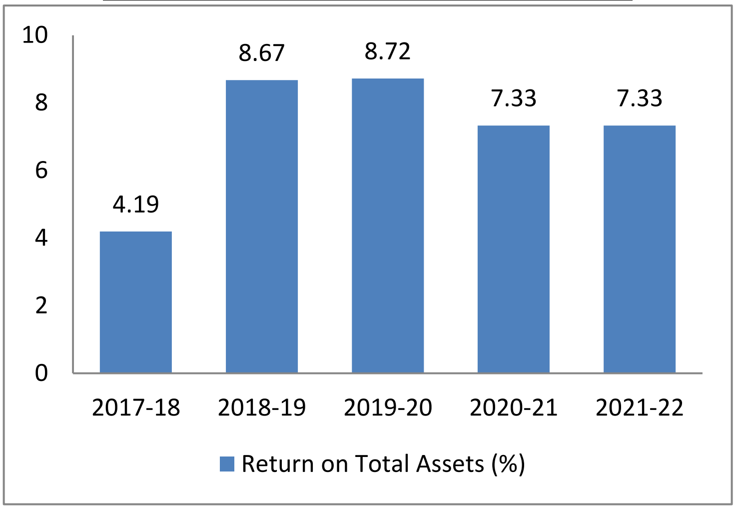


5. RETURN ON TOTAL ASSETS (ROTA) :

Return on Total Assets (ROTA) = Earnings After Tax (EAT) / Total Assets *100

By dividing a company's earnings after taxes by its total assets, the return on total assets ratio can be calculated.

Year	Return on Total Assets (%)
2017-18	4.19
2018-19	8.67
2019-20	8.72
2020-21	7.33
2021-22	7.33

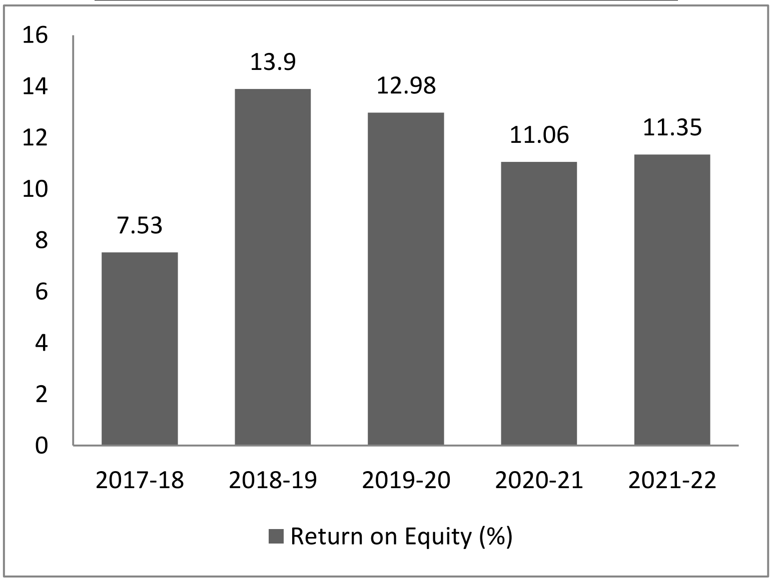


6. RETURN ON EQUITY (ROE) :

Return on Equity (ROE) = Earnings After Tax (EAT) / Net Worth *100

The return on equity measures a company's profitability in relation to its equity.

Year	Return on Equity (%)
2017-18	7.53
2018-19	13.9
2019-20	12.98
2020-21	11.06
2021-22	11.35



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V. DATA ANALYSIS (IN MILLIONS)

Year	Sales	Operating profit	Net profit	Total assets	Gross profit
2018	14281	1429	912	22544	14436
2019	15448	2380	1906	22465	15785
2020	17517	1927	1969	23225	18137
2021	19047	2932	1903	26616	19338
2022	21545	3086	2112	29746	22029

VI. RESEARCH FINDINGS

- From Rs. 14281 million in 2017–18 to Rs. 21545 million in 2021–22, the company's sales rose. As a result, between the maximum of 22.75 percent in 2018–19 and the minimum of 17.55 percent in 2017–18, the gross profit margin ratio has varied. Over the course of the study, the average gross profit ratio was 19.9%.
- The operating profit margin ratio reveals the real earnings of the company. This ratio's trend has been inconsistent over the course of the investigation. Operational profit increased from 10% in 2017–18 to 11% in 2019–20 as a percentage. Also, the ratio grew to 14.32% in 2021–22, which is encouraging for the organization's management performance in the second half of the research period.
- The net profit margin ratio improved for Dr. Reddy's Laboratories Ltd. over the research period, rising from 6.38 percent in 2017–18 to 9.80 percent in 2021–22, showing the company's higher degree of profitability..
- Profits per share are widely monitored by investors and regarded as a key sign of a company's performance. From Rs. 57.08 in 2017–18 to Rs. 122.22 in 2019–20, Dr. Reddy's EPS has grown. Also, the ratio increased to Rs. 131.57 in 2021–22, which is a positive sign for the company's management and potential investors.
- Dr Reddy's Laboratories Ltd. have seen a rise in its return on total assets from 4.19 percent in 2017–18 to 7.33 percent in 2021–22. This shows the abilities and success of the business management in turning a profit with the available capital.
- From 7.53 percent in 2017–18 to 11.35 percent in 2021–22, Dr. Reddy's return on equity (ROE), which made the return received on the common stockholders' investment in the business It demonstrates the effective use of the company's financial resources by the management team.

Hence, it can be seen that Dr Reddy's Laboratories Ltd.'s overall profitability performance is strong, which points to a significant increase in the market price of its shares and a respectable return on invested capital.

VII. LIMITATIONS

It is unrealistic to believe that the mechanical computation of one ratio, or even numerous ratios, will immediately produce significant insights into a corporation because a ratio is simply one number divided by another. The information used largely comes from publicly accessible historical annual reports, so it may not accurately depict the firm's current financial situation. As financial things are sensitive by nature, obtaining them is difficult.

VIII. CONCLUSION

To conclude that the company have experienced a slight decline in its gross profit margin when compared to sales revenue because of the high cost of goods sold but still they tend to gradually increase in the upcoming years, which is a good sign for the company as it attracts more investors and generates a good name for the company in the community. It should use consistent methodology and financial policies in order to reduce cost of products sold, meet operating, financial, and tax expenses, and raise returns on after-tax earnings. In relation to the company's sales volume, operating profit is likewise insufficient. The profits after tax that are accessible to common stockholders are relatively low. This is due to how excessive expenses affect other costs and the price of the items provided. Respect to accounting and financial norms should be used to control these variables. Focusing on future growth makes the company an ideal venture for the investors to invest in and to enjoy a good profitable return Hence, Dr Reddy's Labs Ltd. is successful and has bright potential for the future,

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but in order to avoid future financial difficulty, it must constantly analyse and manage its cost of goods sold and expenses.

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