FINANCIAL PERFORMANCE ANALYIS OF CIPLA & SUN PHARMA- A COMPARITIVE STUDY

Dr S. Durga, Assistant Professor, KLEF, K L University
Dr Venkateswarao Podile, Professor, KLEF, KL University
Hemendra, Research Scholar BBA, KLEF, KL University
Anil, Research Scholar, BBA, KLEF, KL University
Akash, Research Scholar, BBA, KLEF, KL University
Durga Akshaya, Research Scholar, BBA, KLEF, KL University

Abstract

It is critical in any company organisation to maintain adequate liquidity in order for operations to run smoothly. One of the most significant components in every organization's success is maintaining a proper liquidity position, which has direct control over financial performance. Liquidity is achieved by having adequate operating capital. It is often referred to as an organization's lifeblood. If there is a disruption in the steady flow of working capital, the organization's functioning and survival may suffer. Furthermore, the organisation cannot maintain extra working capital. The monies are not being used effectively by the organisation. As a result, the company should keep its operating capital as low as possible. This article focuses on liquidity and financial markets. Organization's performance the link between the public sector's liquidity and profitability Statistical tools are used to investigate insurance businesses.

The researchers have used secondary data source for performing the key ratio analysis, the study is confined in measuring the profitability, liquidity and market related ratio of Cipla and Sun Pharrma companies. The study period is confined for 5 years from 2017 to 2020. The researchers have used Karl Pearson's coefficient of correlation in order to measure the degree of association between the key financial metrics. Based on the analysis it is noted that Sun Pharma tends to perform on different financial metrics when compared with the Cipla. Hence, stated that the Sun Pharma is possessing higher liquidity and profitability ratios when compared with the other company.

Keywords: *Liquidity Ratios, Competitiveness, operating capital organization, public Institutions, Correlation analysis.*

Introduction

Profits for any company are solely dependent on a good sales programme. Between the conversions of credit sales to cash, there is a time lag. The organization's everyday operations will be harmed if credit sales are not converted to cash. As a result, a rigorous working capital management system is essential for any corporate unit. As a result, the corporate entity is interested in converting current assets to meet the organization's present liability. Sufficient working capital is essential to meet the organization's needs and maintain sales activity [1].

Working capital management is critical for running our day-to-day activities efficiently in any business organisation. It suggests that working capital is the sole source of money for any company entity's day-to-day operations. As a result, good working capital management is a must-have function for any firm [2]. If working capital is not effectively managed, the business entity will not only cease to exist, but will also cease to be solvent. Many entities create working capital for organising short-term funding resources through short-term credits from relatives and friends, as well as short-term loans from financial institutions, depending on the size of the company.

Consider the most typical sources of working cash for any business. Suppliers provide trade credits, customers pay in advance, bankers provide overdraft and cash credit, and government agencies provide subsidies, among other things, are the most commonly used avenues for acquiring working capital [3]. When capital is locked up in working capital, such as inventories, the organization's profitability suffers. As a result, determining the best working capital for a company is critical. Smooth blood circulation is necessary for any individual to survive. In the same way, working capital is the lifeblood and nervous system of any business. It means that working capital is critical to the smooth operation of a company. Furthermore, it should be highlighted that businesses cannot maintain extra working capital because it has a negative influence on their profitability. As a result, businesses are urged to keep optimal and enough working capital.

Literature Review

Ratio Analysis is a frequently used tool for evaluating financial performance and financial situation. The term Ratio is defined by the Oxford Dictionary as "the relationship between two groups of people or things that is represented by two numbers indicating how much greater one group is than the others. This indicates that one number is denoted by another. This allows for the estimation of the relationship between the two numbers.

According to [4], ratio analysis is "the methodical application of ratios to the interpretation of financial statements in order to ascertain a firm's strengths and weaknesses, as well as its past performance and current financial situations" (Khan, 2011). Any organization's stakeholders are interested in learning about both its strengths and weaknesses. Ratio analysis is the most effective method for acquiring insight into an organization's operational efficiency, profitability, and financial condition.

In their paper [5] the financial performance of selected Indian Airline Companies. They have chosen three companies from the listed companies at BSE namely Kingfisher Airlines Ltd., Jet Airways Ltd. and Spicejet Ltd. The researchers have not only studied the financial

Performance of the leading giants in the airline sector were studied but also checked the financial soundness. The researchers have used the renowned Altman Z-Score model in the study. They concluded that Spice Jet position was healthy during the period of study. But the position of Kingfisher Airline was in distress zone.
The impact of Liquidity on profitability of Bharat Heavy Electrical Ltd. (BHEL) during the period commencing from 2000 till 2012.The researchers have found that the short-term repaying capacity is significantly declining. The major reasons were poor inventory management, cash management and debtor’s management. This has adversely affected the liquidity position of the organization

Types of Financial Ratio Analysis Ratio Analysis is grouped into four broad categories, as illustrated in the accompanying figure.

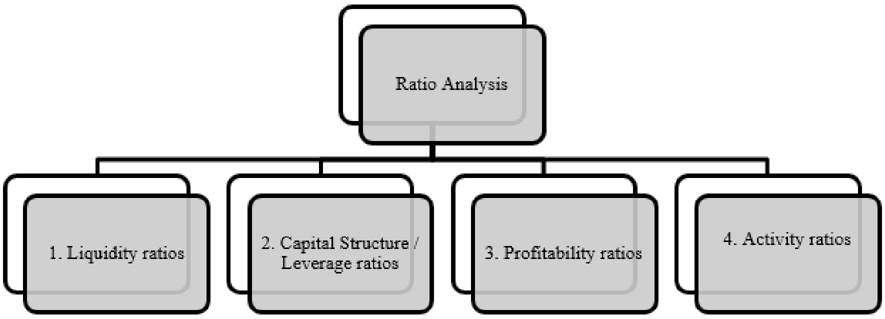

Fig 1: Various metrics in ratio analysis

Objectives of the Study

1. To determine the liquidity and profitability of the study's public sector Pharmaceutical companies.
2. To determine the nature of relationship between key profitability ratios between the select public sector enterprises.
3. To demonstrate the functional relationship between the liquidity and profitability.

Research Methodology

The study is based on secondary data. The analysis is pertaining to public sector insurance companies. The public sector insurance companies are as follows:

- Sun Pharmaceutical Industries Ltd.
- Divis Laboratories Ltd.
- Cipla Ltd.
- Dr. Reddys Laboratories Ltd.
- Apollo Hospitals Enterprise Ltd.
- Torrent Pharmaceuticals Ltd.
- Max Healthcare Institute Ltd.
- Zydus Lifesciences Ltd.

Out of these Cipla and Sun pharma were chosen for the study based through convenience sampling.

Data analysis and Interpretation

Profitability ratios

The profitability ratio is one of the critical measures which provides a comparative analysis on the profits generated by the business and is compared with the total revenues or sales, this metric enables in understanding the ability of the management to post consistent profits, which states the potential of the business in managing the expenses effectively [6].

Table 1: Profitability ratios of Sun Pharma India

Profitability Ratios - SUN PHARMA India	Mar '22	Mar '21	Mar '20	Mar '19	Mar '18	Change
Operating Profit Margin (%)	93.92	-72.83	80.77	93.9	91.1	4.19%
Profit Before Interest and Tax Margin (%)	94.92	-64.49	78.06	93.64	90.24	5.19%
Gross Profit Margin (%)	94.92	-74.83	79.77	93.9	90.63	4.73%
Adjusted Net Profit Margin (%)	57.62	-40.81	51.95	82.79	78.26	-26.37%
Return On Capital Employed (%)	13.15	-1.76	10.8	11.79	12.72	3.38%
Return on Long Term Funds (%)	13.15	-1.76	10.8	11.79	12.72	3.38%

From the table 1, it can be stated that the overall profitability ratios of the company have been consistently increasing from 2018 to 2022, in 2021 the ratios are negative due to the pandemic situation, however the company has revived the business in 2021 and posted profits in 2021.

Table 2: Profitability ratios of Cipla

Profitability Ratios - CIPLA	Mar '21	Mar '20	Mar '19	Mar '18	Mar '17	Change
Operating Profit Margin (%)	75.06	57.66	87.28	99.27	97.97	-23.38%
Profit Before Interest and Tax Margin (%)	74.21	56.41	82.18	95.52	79.87	-7.09%
Gross Profit Margin (%)	75.06	57.66	87.28	99.27	97.97	-23.38%
Adjusted Net Profit Margin (%)	59.36	50.68	79.18	80.2	85.17	-30.30%
Return On Capital Employed (%)	5.4	7.86	2.74	14.28	5.77	-6.41%
Return on Long Term Funds (%)	10.71	7.86	2.74	11.28	5.77	85.62%

From table 2, t has been noted that the overall profits of the company have been in decreasing trend, it has been noted that the poor marketing and serving the customers. This has impacted the overall revenues and profitability of the business.

Comparison

By making a comparative analysis between the companies, it has been noted that SUN PHARMA performs better than CIPLA. This has been clearly reflected in the overall performance of gross profit and operating profit. While measuring the gross profit of SUN PHARMA the GP margin was at 94.92% whereas for CIPLA it is 75.06%, this is mainly due to increase in overall cost, however the ROCE of SUN PHARMA is 13.15% in 2021, whereas it 5.4% for CIPLA. Hence it can be stated that the SUN PHARMA performs better than CIPLA [7]

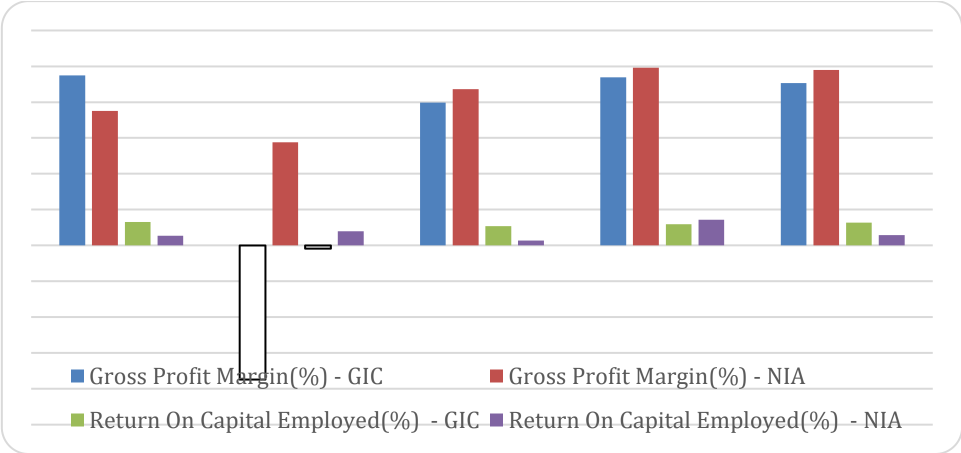

Fig 2: Comparative analysis of profitability ratio between SUN PHARMA and CIPLA

The figure 2 shows the graphical representation of the comparison between key profitability ratios between SUN PHARMA and CIPLA, it has been noted that SUN PHARMA performs better when compared with CIPLA and hence holds better profitability position.

Liquidity ratios

The second metric which is considered for the analysis is the ability of the management to meet the short-term obligations, in the insurance industry the company tend to receive claims from the customers when they face adverse situations, hence the management need to maintain better current assets in order to meet the current liabilities [8].

Table 3: Liquidity ratios of SUN PHARMA

Liquidity Ratios - SUN PHARMA India	**Mar '21**	**Mar '20**	**Mar '19**	**Mar '18**	**Mar '17**	**Change**
Current Ratio (X)	2.82	0.6	0.68	0.72	0.73	286.30%
Quick Ratio (X)	2.82	0.6	0.68	0.72	0.73	286.30%
Inventory Turnover Ratio (X)	0	0	0	0	0	0.00%
Dividend Pay-out Ratio (NP) (%)	0	-329.78	53.23	30.98	0	0.00%
Dividend Pay-out Ratio (CP) (%)	0	-329.78	53.23	30.98	0	0.00%
Earnings Retention Ratio (%)	0	429.78	46.77	69.02	0	0.00%
Cash Earnings Retention Ratio (%)	0	429.78	46.77	69.02	0	0.00%

The table 3 shows in detail the liquid position of the company, the current ratio stats the potential of the company in repaying the short-term obligations from the analysis it is noted that the current ratio of the company is 2.82 in 2021 which has been increasing in the past 5 years, hence it can be stated that the company holds better current ratio and hence the liquidity position of the company is strong [9].

Table 4: Liquidity ratios of CIPLA

Liquidity Ratios - CIPLA	Mar '21	Mar '20	Mar '19	Mar '18	Mar '17	Change
Current Ratio (X)	0.47	0.53	0.53	0.54	0.51	-7.84%
Quick Ratio (X)	0.47	0.53	0.53	0.54	0.51	-7.84%
Inventory Turnover Ratio (X)	0	0	0	0	0	0.00%
Dividend Pay-out Ratio (NP) (%)	0	21.02	85.66	14.03	0	0.00%
Dividend Pay-out Ratio (CP) (%)	0	21.02	85.66	14.03	0	0.00%
Earnings Retention Ratio (%)	0	78.98	14.34	85.97	0	0.00%
Cash Earnings Retention Ratio (%)	0	78.98	14.34	85.97	0	0.00%

From the table 4 it can be noted that the current ratio of CIPLA is 0.47 in 2021 and when compared with other years, the current ratio is less than 1.00, hence it is identified that the company does not possess necessary current assets in order to meet the current liabilities, therefore the liquidity position of the company is weak. It is suggested to the management that the company need to possess better current assets in order to meet the obligations and hence maintain a better and healthy liquidity in the future

Comparison

By making comparative study of current ratio between SUN PHARMA and CIPLA, it is noted that both companies tend to remain same during 2017 to 2020, with less than 1.00 which means that the companies does not possess even 1 unit of current assets to pay 1 unit of current liabilities. However, in 2021 the SUN PHARMA has enabled in increasing the current assets and hence the company possess better liquidity position. The management of both companies need to focus in maintaining better liquidity ratios so that they can meet the claims in an effective manner and hence their solvency [10].

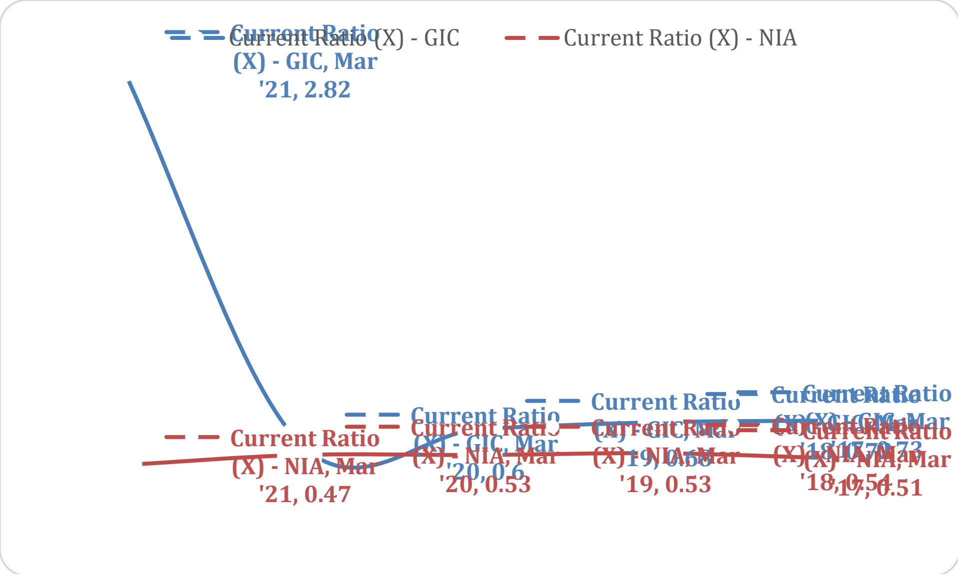

Fig 3: Comparative analysis of liquidity ratio between SUN PHARMA and CIPLA

Valuation ratios

The third metric which has been considered in the analysis is the valuation ratio, the liquidity and profitability ratios tend to consider the book value of the company. Whereas the valuation ratio intends to consider the overall market value of the key ratios like price to book value, market capitalisation to net operating income etc [11].

Table 5: Valuation ratios of SUN PHARMA

Valuation Ratios - SUN PHARMA	Mar '21	Mar '20	Mar '19	Mar '18	Mar '17	Change
Enterprise Value (Cr.)	16,714.96	2,549.87	29,713.84	49,771.88	0	-66.42%
EV/Net Operating Revenue (X)	5.02	3.36	7.09	12.78	0	-60.72%
EV/EBITDA (X)	5.28	-5.72	8.65	13.57	0	-61.09%
Market Cap/Net Operating Revenue (X)	10.51	24.27	10.16	16.42	0	-35.99%
Retention Ratios (%)	0	429.78	46.76	69.01	0	-100.00%
Price/BV (X)	1.46	0.73	1.34	2.06	0	-29.13%
Price/Net Operating Revenue	10.51	24.27	10.16	16.42	0	-35.99%
Earnings Yield	0.05	-0.02	0.05	0.05	0	0.00%

The table 5 shows the key valuation ratios of SUN PHARMA, from the table it can be stated that the company is reviving the Market Cap post Covid 19. The company has been greatly impacted due to the pandemic crisis, the company has been focusing in increasing the enterprise value to nearly 16,700 crores, which is better when compared with 2020. The price to book value shows that the company share price has been increasing, hence showing better valuation position for the company [12].

Table 6: Valuation ratios of CIPLA

Valuation Ratios - CIPLA	**Mar '21**	**Mar '20**	**Mar '19**	**Mar '18**	**Mar '17**	**Change**
Enterprise Value (Cr.)	13,754.28	7,318.85	21,830.72	49,194.27	0	-72.04%
EV/Net Operating Revenue (X)	5.15	2.67	31.65	18.63	0	-72.36%
EV/EBITDA (X)	6.75	4.47	33.85	18.05	0	-62.60%
Market Cap/Net Operating Revenue (X)	9.52	6.76	45.57	22.05	0	-56.83%
Retention Ratios (%)	0	78.97	14.33	85.96	0	-100.00%
Price/BV (X)	1.03	0.89	1.34	2.41	0	-57.26%
Price/Net Operating Revenue	9.52	6.76	45.57	22.05	0	-56.83%
Earnings Yield	0.06	0.08	0.02	0.04	0	50.00%

The table 6 shows the key valuation ratios of CIPLA, from the table it can be stated that the company is reviving the Market Cap post Covid 19. The company has been greatly impacted due to the pandemic crisis, the company has been focusing in increasing the enterprise value to nearly 13,700 crores, which is better when compared with 2020. The price to book value shows that the company share price has been increasing, hence showing better valuation position for the company.

Comparison

Based on the comparative analysis on the valuation ratios, it can be stated that SUN PHARMA possess higher price to book value at 1.46 in 2021 whereas CIPLA is 1.03 in 2021. Hence it can be stated that SUN PHARMA possess better price to book value, on the other hand, the market capitalisation to NOI is 10.51 in 2021 for SUN PHARMA whereas it is 9.52 for CIPLA. Hence, it can be stated that SUN PHARMA possess better valuation ratios when compared with the CIPLA.

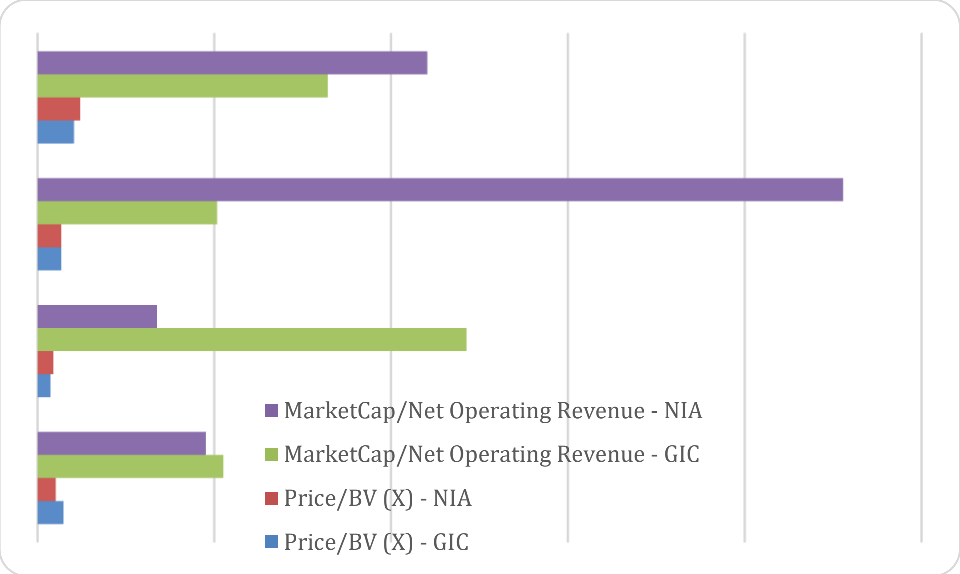

Fig 4: MarketCap/Net Operating Revenue

Correlation Analysis

The last part of the data analysis is focused in performing the Karl Pearson's correlation analysis between SUN PHARMA and Cipla, the three major metrics considered are Return on capital employed, Current ratio and Price to Book value. The coefficient of correlation lies between -1 to +1.

Table 7: Valuation ratios of CIPLA

	Return On Capital Employed (%) - SUN PHARMA	Return On Capital Employed (%) - Cipla	Current Ratio (X) - SUN PHARMA	Current Ratio (X) - Cipla	Price/BV (X) - SUN PHARMA	Price/BV (X) - Cipla
Return On Capital Employed (%) - SUN PHARMA	1	-0.075	0.388	-0.388	0.823	0.531
Return On Capital Employed (%) - Cipla	-0.075	1	-0.223	0.428	0.373	0.608
Current Ratio (X) - SUN PHARMA	0.388	-0.223	1	-0.925	-0.007	-0.389

Current Ratio (X) - Cipla	-0.388	0.428	-0.925	1	-0.012	0.409
Price/BV (X) - SUN PHARMA	0.823	0.373	-0.007	-0.012	1	0.899
Price/BV (X) - Cipla	0.531	0.608	-0.389	0.409	0.899	1

From the above table 7 it is noted that the highest correlation list between the price to book value of SUN PHARMA and price to book value of CIPLA with nearly +0.899, whereas the next highest correlation is noted between Price to book value of SUN PHARMA and ROCE of SUN PHARMA with +0.823, the lowest correlation is noted between Current ratio of SUN PHARMA and current ratio of CIPLA.

Thus, it can be stated that General insurance corporation of India (SUN PHARMA) tend to perform better on major metrics against Cipla (CIPLA). [13]. It has been regarded that the public sector insurance companies mainly in the general insurance category are now focusing in using different strategies in order to enhance their business operations and provide better customer services [14].

Conclusion

Based on the analysis performed in the previous section it is noted that SUN PHARMA performs better when compared with Cipla the management of both companies need to focus on enhancing their quality of the current assets so that they can meet their claims effectively. This enables in offering better servicing to the customers and achieve sustainable growth and development. Working capital management is crucial to effectively run our day-to-day operations in all business organizations. This indicates that working capital is the only source of cash for each unit's daily operations. Therefore, good management of working capital is an important function for all companies. If the working capital is not managed efficiently, the company will not only cease to exist but will also be solvent. Many organizations create funds to organize short-term financial resources through short-term loans from relatives and friends, as well as short-term loans from financial institutions, depending on the size of the business.

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