



A COMPARATIVE FINANCIAL ANALYSIS OF CADILA HEALTHCARE LTD & TORRENT PHARMACEUTICALS LTD

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ABSTRACT

Indian pharmaceutical industry played a key role in promoting and sustaining the production of medicines in the critical sector. Financial analysts also analyze the output of production and productivity, profitability performance, liquidity performance, leverage performance, performance of asset utilization, and performance of development. The financial performance review determines the firm's financial strengths and weaknesses by properly defining relationships between balance sheet products to account for profit and loss. Thus, the present paper is critical in assessing the company's liquidity, productivity, leverage, asset usage, and growth indicators that the business is conducted in a fair and reasonable manner; ensuring adequate returns to shareholders to retain at least their market value. Researcher has undertaken an analysis of pharmaceutical companies' financial performance in this context to understand how finance management plays a crucial role in the growth. This research essentially aims to assess the pharmaceutical industry's financial results by taking top companies such as Cadila Healthcare Ltd. For the period 2015-16 to 2019-20 Torrent Pharmaceuticals Limited for the research. In order to achieve targets I have calculated the liquidity and productivity ratios in this paper. It is noticed from the analysis that Torrent Pharmaceuticals Limited exhibits a high role of productivity and liquidity than Cadila Healthcare Ltd.

KEYWORDS: Pharmacy sector in India; Profitability; Liquidity; Consistency.

INTRODUCTION:

The Indian pharmaceutical industry is the second biggest by volume in the world and is expected to lead India's manufacturing sector. In the 2015-16 financial year, India's biotech industry clocked a 17 percent growth with sales of Rs.137 billion (\$3 billion) over the previous fiscal year. Bio-pharma was the largest contributor producing 60 per cent of industry growth at Rs.8, 829 crore, led by Rs.2, 639 crore and Rs.1, 936 crore bio-services. The first pharmaceutical company to arrive in Calcutta in 1930, is Bengal Chemicals and Pharmaceutical Works, which still exists today as one of 5 drug manufacturers operated by the government. The government began encouraging Indian companies to develop drug manufacturing in the early 1960s, and with the 1970 Patents Act, it allowed the industry to become what it is today. The lack of patent protection made the Indian market inaccessible to the multinational companies that had dominated the market, and Indian companies began to take their positions as they flooded out. With their skills in reverse engineering new processes for manufacturing drugs at low cost, they carved a niche on both the Indian and the world markets. Though some of the larger firms are currently taking baby steps towards drug innovation.

INDIAN PHARMACEUTICAL INDUSTRY:

In the 1960s and 1970s the Indian pharmaceutical industry was dominated by multinationals. 7 out of the top 10 were multinationals who dominated the industry on the basis of their blockbuster labels.

In the 1990s the situation was reversed, with Indian national companies making 7 out of the top 10. The transition was supported by encouraging policies and regulatory procedures that gave the Indian manufacturers impetus. This was combined with the technological creativity of Indian scientists and technocrats, who took the opportunity of taking imitations of patented goods to the Indian market at reasonable prices through the process patents system. In addition, the entry and exit costs in the pharmaceutical industry were small as compared to the global context.

The drug policy (revised every 8th year beginning in 1971) was aimed at raising the availability and affordability of medicines but generated pressure on prices and productivity, forcing the industry to reinvent itself. In 2005, the entire domestic industry became a generic (or branded generics) industry overnight with the introduction of drug patents.

According to Union Minister of State for Chemicals and Fertilizers, Mr Srikant Kumar Jena, India is one of the world's largest and most advanced pharmaceutical industries in exporting generic medicines worth USD 11 billion.

By comparison, India is predicted to rank among the top 10 pharmaceutical markets worldwide by 2015. The growing Indian population segment of the higher income group would open up a potential USD 8 billion market for the sale of expensive drugs by 2015. By 2015, total domestic sales are estimated at USD 20 billion, making India truly a lucrative market. Issues of health infrastructure need to be addressed in order to enable India to leverage this opportunity to become the world's major consumer market.

Pharmacy retail is rising at 20-25 per cent per annum. The unified size of the pharmaceutical retail industry has the potential to rise to USD 9bn by 2011.

REVIEW OF LITERATURE:

Amalendu Bhunia (2010) "Indian Pharmaceutical Industry's Financial Performance a Case Study" analyzed that the financial performance of the liquidity position of the select pharmaceutical firm was high. Christina Sheila's, Karthikeyan. K(2012) "Financial Performance of the Pharmaceutical Industry in India by DuPont Review" found the financial output of Cipla Pharmaceutical Company to be high, followed by Dr. Reddy's Laboratories and then Ranbaxy Pharmaceutical. The three companies are, at their stage, important. In conclusion, ROE & ROI represents a company's most detailed profitability metric. Faruk Hossan and Ahsan Habib entitled "Bangladesh Pharmaceutical Company Performance Evaluation and Ratio Review" concluded that the Beximco Pharmaceutical Company is showing the highest results compared to the Square Pharmaceutical Business. Dr. K.S. Vataliya (2012) "Pharmacy Industry Profitability and Consistency Analysis in India" reported that company success for its profitability Cipla secured first place & Dr. Reddy's, Sun Pharma, Aurobindo followed by other companies. Company success due to its consistency; Aurobindo secured first place & Sun Pharma, Dr Reddy's, Cipla led by other firms.

Debasish Sur and Kaushik Chakraborty (2006) in his study of Indian Pharmaceutical Industry's financial performance: The Indian Pharmaceutical Industry has played a very significant role in growing life expectancy and lowering the mortality rate. It is the 5th largest in volume terms and the 14th largest in terms of value I the planet. The comparative study of Indian pharmaceutical industry's financial results for the period 1993 to 2002 through the selection of six prominent industry companies. The analysis was made using applicable statistical methods from nearly every point of view concerning financial performance.

Du Pont research takes into consideration three metrics for assessing the productivity of the firm: ROA, ROE and ROI. Du Pont's methodology is focused on return on equity, with the net profit margin, gross asset depletion and equity multiplier being the components of this formula (McGowan and Stambaugh, 2012). Du Pont analysis is a common method of review of financial statements that splits the return on net operating assets into two multiplicative components: income margin and turnover of assets (B. McClure). These two accounting formulas calculate different factors and have differing properties. Prior work has shown a rise in asset turnover to be directly related to potential earnings improvements (M. Soliman). It leads to the use of accounting knowledge on sell-side analysts. Demmer conducted a literature analysis of Du Pont pieces to forecast the potential performance of the business, operating profits and related details on potential asset return (2015). According to Demmer, both market response and potential competitiveness are affected by the accounting systems.

RESEARCH OBJECTIVE:

1. To measure the profitability of Torrent Pharmaceuticals Limited and Cadila Healthcare Ltd.
2. To measure the liquidity and solvency of Torrent Pharmaceuticals Limited

and Cadila Healthcare Ltd.

- To measure the performance of the companies according to their consistency.

RESEARCH METHODOLOGY:

Sampling Design:

Convenient sampling technique is applied for study.

Period of the Study:

The present research paper cover a period of five years from 2015-16 to 2019-20. The financial data for these years will be compiled from the annual reports of respective pharmaceutical companies.

Tools for Analysis:

There are many techniques which may be used for analysing the financial performance. For the purpose of analysis in the present study mainly ratio analysis will be use.

LIMITATIONS OF THE STUDY:

- The present study would largely be based on an analysis of the ratio that has its inherent limitations.
- As an external observer, the breadth of access to internal data relating to the Pharmaceutical industry's financial performance was limited. Consequently, the results of this study may not carry good water.
- The various views were included in the measurement of the different ratios.
- This study is based on secondary data taken from selected Pharmaceutical companies' published annual reports.

DATA ANALYSIS:

Profitability Ratio

OPERATING PROFIT MARGIN (%)					
COMPANY	2016	2017	2018	2019	2020
Cadila Healthcare Ltd	6.08	-1.52	21.52	19.21	19.96
Torrent Pharmaceuticals Limited	28.07	22.68	20.08	24.55	31.52

PROFIT BEFORE INTEREST AND TAX MARGIN (%)					
COMPANY	2016	2017	2018	2019	2020
Cadila Healthcare Ltd	1.00	-4.38	16.84	15.81	15.62
Torrent Pharmaceuticals Limited	24.08	19.09	16.10	20.96	28.85

GROSS PROFIT MARGIN (%)					
COMPANY	2016	2017	2018	2019	2020
Cadila Healthcare Ltd	1.31	-5.97	18.09	16.03	16.81
Torrent Pharmaceuticals Limited	24.28	19.36	17.01	21.96	29.16

Liquidity Ratio

CURRENT RATIO					
COMPANY	2016	2017	2018	2019	2020
Cadila Healthcare Ltd	1.40	1.63	1.22	1.03	1.35
Torrent Pharmaceuticals Limited	1.51	1.53	1.39	1.59	2.02

QUICK RATIO					
COMPANY	2016	2017	2018	2019	2020
Cadila Healthcare Ltd	1.16	1.23	1.31	1.73	1.60
Torrent Pharmaceuticals Limited	1.65	1.39	1.25	1.24	1.81

DEBT EQUITY RATIO					
COMPANY	2016	2017	2018	2019	2020
Cadila Healthcare Ltd	0.37	0.27	0.43	0.57	0.39
Torrent Pharmaceuticals Limited	0.59	0.52	0.35	0.35	0.42

CONCLUSION:

The report illustrated corporations' competitiveness and liquidity in the pharmaceutical industry. Based on last 5 years' profitability ratios, it can be inferred that Torrent Pharmaceuticals Limited has a high profitability position than Torrent Pharmaceuticals Limited has a similarly high liquidity position to Cadila Healthcare Ltd.

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