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# A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE USING FINANCIAL RATIOS OF CIPLA LTD

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***Abstract***
*The motive of this research report is to compare the financial performance status of a prominent pharmaceutical company Cipla Ltd. The financial performance is analyzed using Ratio analysis for evaluation of financial performance over the study period and interpreting the data. In order to investigate the financial status, we have divided our study into two parts: pre-COVID and COVID period. The data for our analysis is extracted and calculated by using the financial statement of the selected company for the period of 5 years covering FY17 to FY21. Findings reveal that Cipla Ltd. is highly liquid, solvent, and profitable but showed an inefficient operating efficiency; although the ratio was high, the operating efficiency trend has shown a sign of stagnation in its growth.*

***Key Words: Cipla, Financial Performance, Ratios, Efficiency, Stagnation, Growth.***

## Introduction
Financial statements are a collection of summary-level reports that conveys the total business done in a financial year, day-to-day transactions, cost of business, profits and returns, tax, and other important information about a company's performance and financial status. To draw meaningful conclusions from the information provided which is itself raw; tools such as financial analysis or ratio analysis, and trend analysis assist in careful examination with the objective of making logical and relevant decisions by various stakeholders both internal and external. Ratios are the quantitative relationship between two or more variables collected from a financial statement that enables comparison of two or more companies at one point in time. While Trend Analysis determines the percentage change for one account over a wideness of time to understand whether the financial position of a firm is improving or deteriorating. The present paper attempts to compare the financial performance and health trend of the second leading pharmaceutical company (by market cap)-Cipla Ltd. by using financial ratios for FY2017-21.

## Review of literature
**In this section, a critical review of past literature has been made. A review of relevant literature has been discussed below**
Beaver (1996) studied that financial ratios can help in getting important information about the firm. It can be used to detect financial illness of a company even before the failure occurred. The study also state that ratios can also be used to understand the creditworthiness of its borrowers.

Malichova and Durisova (2015) evaluated financial performances of almost 1000 enterprises operating in IT sector in Slovak republic using financial indicators such as profitability ratios, liquidity ratios, total asset turnover ratios and indebtedness indicators. As per the study these indicators are served to identify strengths and weaknesses of performance of enterprises.

Moses Joshuva Daniel (2013) studied the overall financial status of the TATA MOTORS LTD by using various financial tools.

The study has been undertaken for the period of 5 years from 2006-2007 to 2010-2011. In order to analyze financial status in terms of Profitability, solvency, Activity and financial stability various accounting ratios have been used.

Ahmed (2018) has highlighted the effects of financial statement analysis so as to access the profitability of the Kirkuk Company. Various financial techniques of financial statement analysis have been used to access the financial status of the company over a study period 2005 to 2011. The intensive analysis is based on data collected from secondary sources. Findings of the study showed an insignificant relationship between profitability with asset utilisation and asset regulated. The study also showed a weak relationship between liquidity and profitability.

Feroz et al. (2003) have examined the Data Envelopment Analysis (DEA) as a compliment to ratio analysis and suggested that it can serve as a composite tool for analysis of financial statements of any company. Findings of the study showed that DEA as an analysis tool proven to be consistent and can augment the traditional ratio analysis tool.

Bansal (2014) have made a comparative analysis of financial status of selected banks namely AXIS Bank, ICICI Bank, HDFC and Federal Bank for a period covering 2011-2014. The financial performance was examined using profitability, liquidity and solvency ratios. The study revealed that HDFC and Federal Bank have a stable asset turnover ratio. However the computed price earnings ratio in case of Federal Bank is much better as compared to other selected banks.

Sathaya et al. (2016) made an exploratory study on the profitability analysis of Tata Motors. The study utilized various financial ratios to study the financial performance of Tata Motors during the year 2009 to 2014. The paper suggests the firm to use debt and preference capital to enhance their profitability.

**Research Methodology**

The method considered for conducting this research requires a lot of concentration as it directly affects the accuracy, reliability, and adequacy of the result obtained. Therefore, the research methodology employed for conducting this research needs to be elaborated. The research process not only examines the research methods but also delivers the reasons behind the method used in the context of the research study. Research methodology is a way to systematically study and solve research problems.

**The Research Methodology here includes**

1. Objective of study
2. Scope of the study
3. Research Design
4. Sampling
5. Data Collection
6. Limitation of the study

**Objective of the study**

**General Objective**

The general objective of this research report is to compare the financial performance and health trends of Cipla Ltd. by leveraging the financial ratios for the period of 2017-2021.

**Specific Objectives**

**In order to accomplish the above general objective, the study addressed the following specific objectives**

1. To examine the profitability of Cipla Ltd. over a specified study period.
2. To analysis the short-term liquidity position using liquidity analysis
3. To measure the long-term liquidity of Cipla Ltd using solvency ratio.
4. To measure the efficiency of the management over utilization of resources
5. To compare the previous five years and present year performance of the company.
6. To give suggestion and recommendation based on the findings of the study.

**Scope of the study**

Pharmaceutical products and services are the basic needs of the present world. As a result, it is essential to know financial performance as it has greater importance and relevance not only for their owners, shareholders, creditors, governments, etc., but also for the overall well-being and development of the civilization. Therefore, the present study, "A Comparative Study of Financial status using Ratio Analysis of Cipla ltd," has been taken into consideration; this study aims to compare the trend of Cipla ltd.'s financial ratios over the preceding five financial years (FY17-FY21) to find out the financial health and associate profitability and risk of the company using financial ratios like current ratio, solvency ratio, asset turnover ratio and return on equity, etc.

**Research Design**

A descriptive research design has been used to research because it will ensure the minimization of bias and maximization of the reliability of the data collected. Our descriptive study is based on some previous understanding of the topic. The research study had to use factual information already available in the financial statements retrieved from the company's annual report of earlier years to make a critical evaluation from available information.

**Sampling**

**Sample Size**: The population of this study is all pharmaceutical multinational Indian companies. For this research purpose, a prominent pharmaceutical company has been chosen.

**Sampling Technique**: Judgmental sampling technique was used in selecting companies and collecting data with respect to the area of study.

**Data Collection Method**

**The current study is majorly based on secondary data, and the data is collected from:**

1. The audited annual reports of the company.
2. Internet – which includes required financial data collected from Cipla ltd official website, i.e., www.cipla.com, and some other websites like www.moneycontrol.com, www.nseindia.com, etc., has been used for the purpose of getting all the required financials and to get detailed knowledge about the Cipla ltd for the convenience of the study.
3. The last five years' annual report of the company is compiled and tabulated for the study.

**Method of Data Analysis**

The data collected from the annual report were classified and tabulated for analysis purpose. The financial tool that is used in this study is Ratio Analysis.

### Limitation of the study

1. This research work is mainly based on secondary data that is, it is based on audited annual reports of Cipla Ltd and if the audited accounts are ambiguous then the result will be misleading.
2. The sample size of the research is limited to last 5 years data. (2017-2021)
3. Data was collected for a period covering FY17 to FY21, thus better results and better insights can be achieved if recent FY22 data is also considered for the study purpose.

### Data Interpretation and Analysis

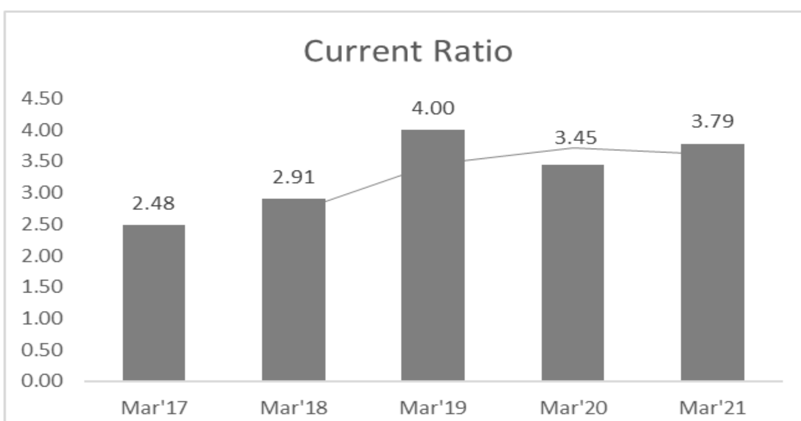
### Liquidity Ratios

### (a) Current Ratio

Current Ratio-The Current Ratio also known as Working Capital Ratio assesses the capability of an organization to pay its bills in the near term. The ratio considers the weight of total current assets versus total current liabilities. It is an indication of the liquidity position of a firm although the acceptable current ratio varies from industry to industry.

$$\text{Current Ratio Formula} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

| Financial Year | Current Assets | Current Liabilities | Current Ratio |
|---|---|---|---|
| Mar'17 | 6,345.34 | 2,555.83 | 2.48 |
| Mar'18 | 7,938.17 | 2,731.70 | 2.91 |
| Mar'19 | 9,478.65 | 2,368.08 | 4.00 |
| Mar'20 | 9,027.06 | 2,619.29 | 3.45 |
| Mar'21 | 10,192.18 | 2,691.94 | 3.79 |




| Average Current Ratio | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 3.79 | 3.74 | 3.33 |

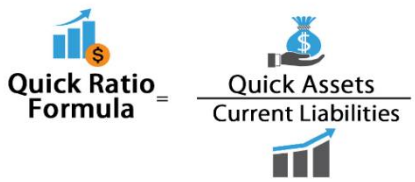
-

**Interpretation:**

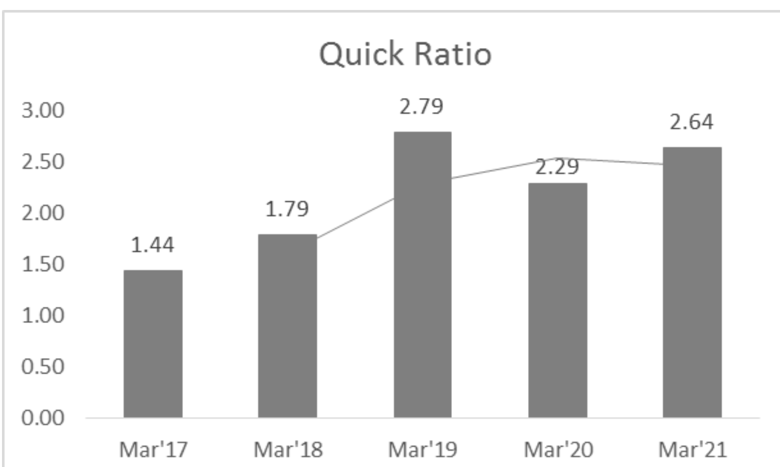
- According to industry standards, the ideal current ratio is 2:1. In the case of Cipla Ltd, we can see that it has maintained an average Current Ratio of 3.33:1 time for the last five years, which is well over the industry standard of 2:1. It signifies that the short-term liquidity position of Cipla ltd is good.

**(b) Quick Ratio**

The Quick Ratio known as the Acid-test Ratio measures the ability to pay all its obligations immediately by having assets that are readily convertible into cash. These assets (also known as "quick assets") are namely cash, marketable securities, and accounts receivable since they can quickly be converted into cash.




| Financial Year | Quick Assets | Current Liabilities | Quick Ratio |
|---|---|---|---|
| Mar'17 | 3,682.31 | 2,555.83 | 1.44 |
| Mar'18 | 4,882.45 | 2,731.70 | 1.79 |
| Mar'19 | 6,605.20 | 2,368.08 | 2.79 |
| Mar'20 | 6,001.21 | 2,619.29 | 2.29 |
| Mar'21 | 7,104.47 | 2,691.94 | 2.64 |




| Average Quick Ratio | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 2.64 | 2.57 | 2.19 |

**Interpretation**

- According to industry standards, the ideal quick ratio is 1:1. In the case of Cipla Ltd, we can see from the above chart that the Quick Ratio of Cipla ltd in FY18 has increased compared to FY17 from 1.44 times to 1.79 times. In FY19, the quick ratio has increased by a significant margin compared to the preceding financial year due to the increases in the quick asset and fall in the current liability. And in FY20, the quick ratio has gradually increased due to the rise in the quick asset.

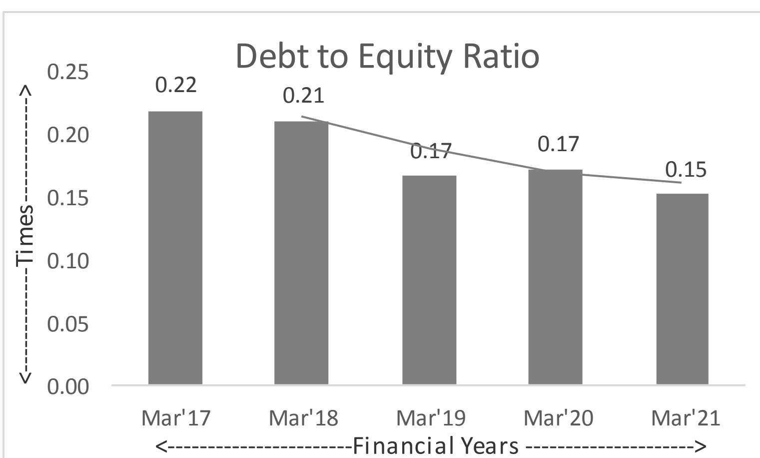
## Solvency Ratios

### (a) Debt-Equity Ratio

The Debt-Equity Ratio/Risk Ratio/Gearing Ratio is a leverage ratio that calculates the proportion of total debt and financial liabilities against total shareholder's equity. The ratio indicates how a company's capital structure is tilted either toward debt or equity financing.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

| Financial Year | Total Debt | Total Equity | Debt to Equity Ratio |
|---|---|---|---|
| Mar'17 | 2,806.71 | 12,800.51 | 0.22 |
| Mar'18 | 2,981.45 | 14,113.52 | 0.21 |
| Mar'19 | 2,636.90 | 15,781.91 | 0.17 |
| Mar'20 | 3,002.70 | 17,402.96 | 0.17 |
| Mar'21 | 3,036.18 | 19,927.56 | 0.15 |




| Average Debt to Equity Ratio | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 0.15 | 0.16 | 0.18 |

**Interpretation**

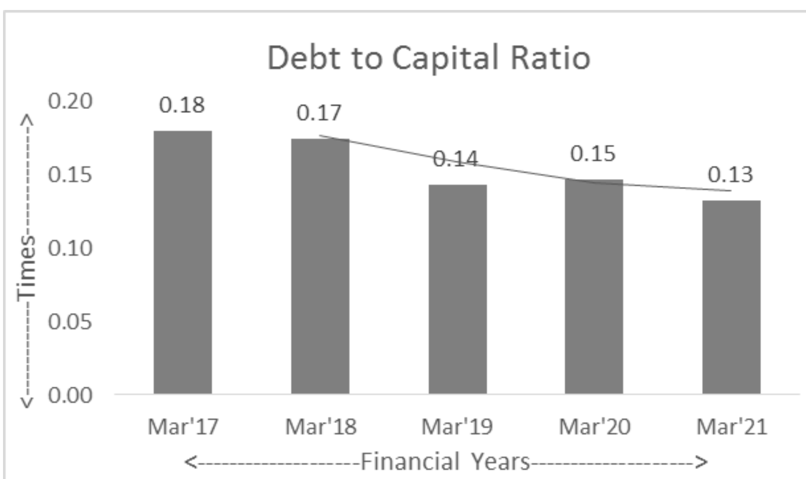
- According to industry standards, the ideal Debt to Equity ratio is 2:1 times. The above Debt to Equity chart of Cipla limited shows a gradual downward trend in its debt-to-equity ratio. This gradual downward trend in the debt-to-equity ratio is due to the constant rise in the total equity.

**(b) Debt-Capital Ratio**

The Debt-Capital Ratio assesses a company's financial leverage, calculated by taking the company's interest-bearing debt against the total capital of the company. A company that uses too much debt may face a financial crisis like a bankruptcy situation summoning trouble paying off its remaining debt. Therefore, the optimum balance between the two should be maintained.

$$\text{Debt to Capital Ratio} = \frac{\text{Total Debt}}{\text{Total Debt + Equity}}$$

| Financial Year | Total Debt | Total Capital Employed | Debt to Capital Ratio |
|---|---|---|---|
| Mar'17 | 2,806.71 | 15,607.22 | 0.18 |
| Mar'18 | 2,981.45 | 17,094.97 | 0.17 |
| Mar'19 | 2,636.90 | 18,418.81 | 0.14 |
| Mar'20 | 3,002.70 | 20,405.66 | 0.15 |
| Mar'21 | 3,036.18 | 22,963.74 | 0.13 |




| Average Debt to Capital Ratio | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 0.13 | 0.14 | 0.16 |

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**Interpretation**

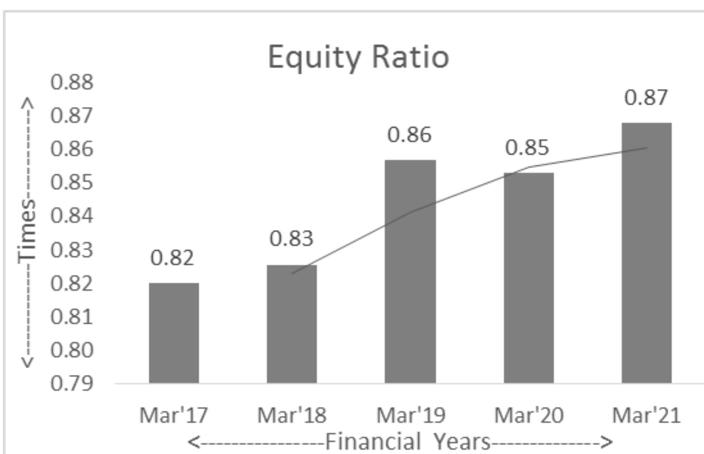
- The above chart shows a gradual downward trend in Cipla Ltd.'s debt-capital ratio over the last five financial years. This gradual downward trend in the debt-capital ratio is due to the constant rise in total equity. In FY18, the debt-capital ratio has fallen gradually from 0.18 in FY17 to 0.17 in FY18 due to an increase in the total capital employed. In the FY19 there is a significate fall in the Debt-capital ratio due to a rise in the total capital and a fall in the total debt. In FY20 and FY21 there was a gradual fall compare to FY19.

**(c) Equity Ratio**

It is also known as the Proprietary ratio or Shareholder Equity or Net Worth Ratio measures the amount or contribution of shareholders or proprietors towards the total assets of the business. It indicates how much a company's assets are funded by issuing stock rather than borrowing money besides showing how much the shareholders will receive in the event of liquidation of the company.

$$\text{Equity Ratio Formula} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

| Financial Year | Total Equity | Total Asset | Equity Ratio |
|---|---|---|---|
| Mar'17 | 12,800.51 | 15,607.22 | 0.82 |
| Mar'18 | 14,113.52 | 17,094.97 | 0.83 |
| Mar'19 | 15,781.91 | 18,418.81 | 0.86 |
| Mar'20 | 17,402.96 | 20,405.66 | 0.85 |
| Mar'21 | 19,927.56 | 22,963.74 | 0.87 |




| Average Equity Ratio | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 0.87 | 0.85 | 0.84 |

**Interpretation**

- Company with an equity ratio that is 0.50 or above is a conservative company because they access more funding from shareholder equity than they do from debt., In the case of Cipla Ltd, there is an upward trend in the equity ratio over the last 5 years period and the five years' average equity ratio is 0.84 which is greater than 0.5, it signifies that Cipla Ltd is a conservative company.

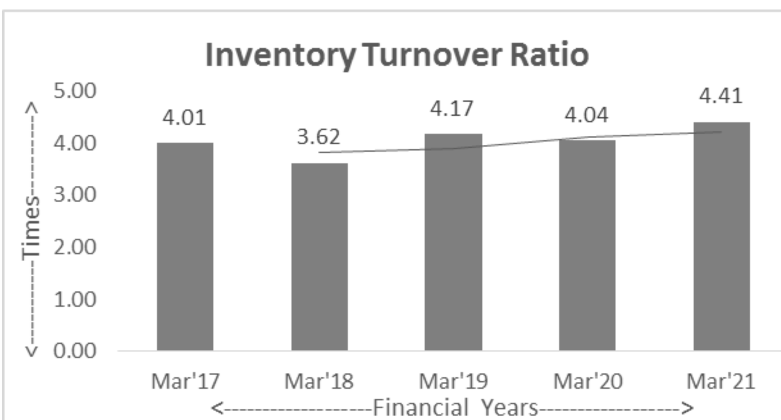
## Activity Ratios

### (a) Inventory Turnover Ratio

It is also known as the Efficiency Ratio which measures how often an average inventory gets turned or sold at a point in a year. It is calculated by comparing the cost of goods sold against the average inventory to understand how effectively inventory is managed.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold (COGS)}}{\text{Average Inventory}}$$

| Financial Year | Cost of good sold | Average Inventory | Inventory Turnover Ratio |
|---|---|---|---|
| Mar'17 | 10,637.08 | 2,653.50 | 4.01 |
| Mar'18 | 11,004.44 | 3,037.98 | 3.62 |
| Mar'19 | 11,968.44 | 2,868.41 | 4.17 |
| Mar'20 | 12,220.22 | 3,021.36 | 4.04 |
| Mar'21 | 13,610.02 | 3,085.81 | 4.41 |




| Average Inventory Turnover Ratio | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 4.41 | 4.21 | 4.00 |

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**Interpretation**

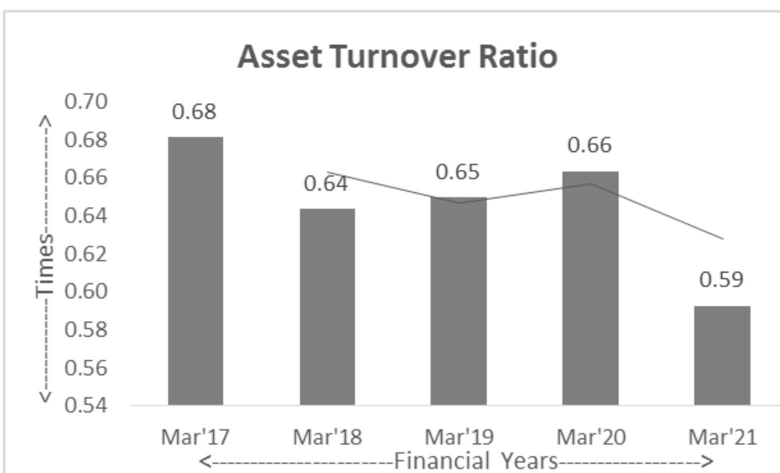
•The above chart shows a gradual upward trend in Cipla Ltd.'s inventory turnover ratio over the last five financial years. This gradual upward trend in the Cipla Inventory turnover ratio is due to the rise in the cost of goods sold. In FY18, the inventory turnover ratio has fallen gradually from 4.01 in FY17 to 3.52 in FY18 due to an increase in the average inventory. FY19, FY20, and FY21 show a gradual upward trend. The last 5 Financial year's average inventory turnover ratio is 4.00 times it signifies that the company has a good business model and sales policy.

**(b) Asset Turnover Ratio**

This ratio measures the efficiency of a firm in using its assets to generate sales by comparing net sales with average total assets. The higher the asset turnover ratio, the more favourable it is for the company.

$$\text{Asset Turnover Ratio Formula} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

| Financial Year | Net Sales | Average Total Asset | Asset Turnover Ratio |
|---|---|---|---|
| Mar'17 | 10,637.08 | 15,607.22 | 0.68 |
| Mar'18 | 11,004.44 | 17,094.97 | 0.64 |
| Mar'19 | 11,968.44 | 18,418.81 | 0.65 |
| Mar'20 | 12,220.22 | 18,418.81 | 0.66 |
| Mar'21 | 13,610.02 | 22,963.74 | 0.59 |




| Average Asset Turnover Ratio | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 0.59 | 0.63 | 0.65 |

**Interpretation**

•From the above chart it can be seen that the asset turnover ratio is in a downward trend over the last five years. In FY18 the asset turnover ratio saw a plunge compare to preceding FY17 ,in FY19 and FY20 it has increased gradually and in the FY21 it took a significant plunge due marginal rise in net sales compare to 24.6% surge in total asset.The last 5 year's average asset turnover ratio is 0.65 it signifies that company isn't using its assets efficiently.

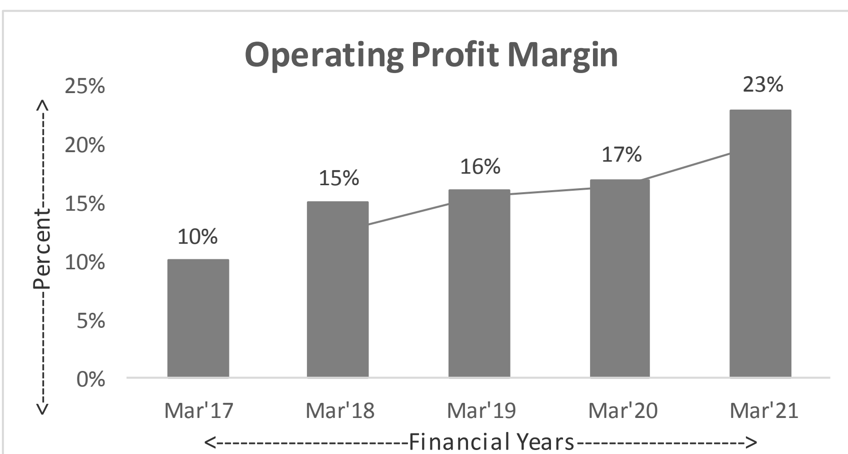
**Profitablility Ratios**

**(a) Operating Profit Margin**

It is also known as Gross Profit Ratio is used to determine the percentage of the profit which the company generates from its operations before deducting the taxes and interest. It indicates the difference between the cost price and the selling price. The higher the difference, the better it is because the potentiality to make more profits get enlarged.

$$\text{Operating Profit Margin Formula} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

| Financial Year | Operating Profit | Net Sales | Operating Profit Margin |
|---|---|---|---|
| Mar'17 | 1,096.29 | 10,637.08 | 10% |
| Mar'18 | 1,665.94 | 11,004.44 | 15% |
| Mar'19 | 1,932.28 | 11,968.44 | 16% |
| Mar'20 | 2,107.51 | 12,220.22 | 17% |
| Mar'21 | 3,165.45 | 13,610.02 | 23% |




| Average Operating Profit Margin | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 23% | 18.6% | 16.2% |

**Interpretation**

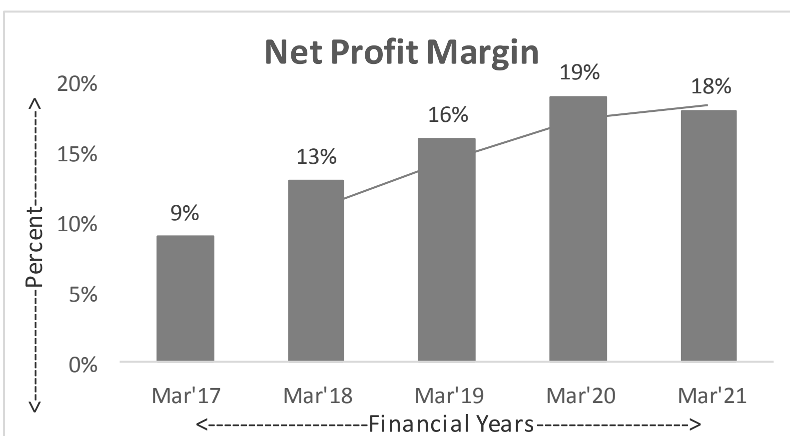
•From the above chart it can be seen that the Operating profit margin is growing steadily over the last five years. In FY18 the operating profit margin saw a significant surge by 49.31% compare to preceding FY17, it was due to the rise in the operating profit ,in FY19 and FY20 it has increased marginally and in the FY21 it took a significant surge due to 50.6% surge in operating profit .The 5 years average operating profit margin is 16.2% it signifies that the company has a good operating efficiently.

**(b) Net Profit Margin**

Net Profit Margin also known as Net Income Margin is the ratio of profit a company's ability to earn to the amount of revenue (net sales) the company generates. It indicates the profit that is available to the risk takers or equity shareholders, which can help them to compare a company's performance across reporting periods and among its competitors.

$$\text{Net Profit Margin Formula} = \frac{\text{Net Profit}}{\text{Total Revenue}} \times 100$$

| Financial Year | Net Profit | Total Revenue | Net Profit Margin |
|---|---|---|---|
| Mar'17 | 974.94 | 10,637.08 | 9% |
| Mar'18 | 1,468.52 | 11,004.44 | 13% |
| Mar'19 | 1,888.41 | 11,968.44 | 16% |
| Mar'20 | 2,318.17 | 12,220.22 | 19% |
| Mar'21 | 2,468.28 | 13,610.02 | 18% |




| Average Net Profit Margin | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 18% | 17.6% | 15% |

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**Interpretation**

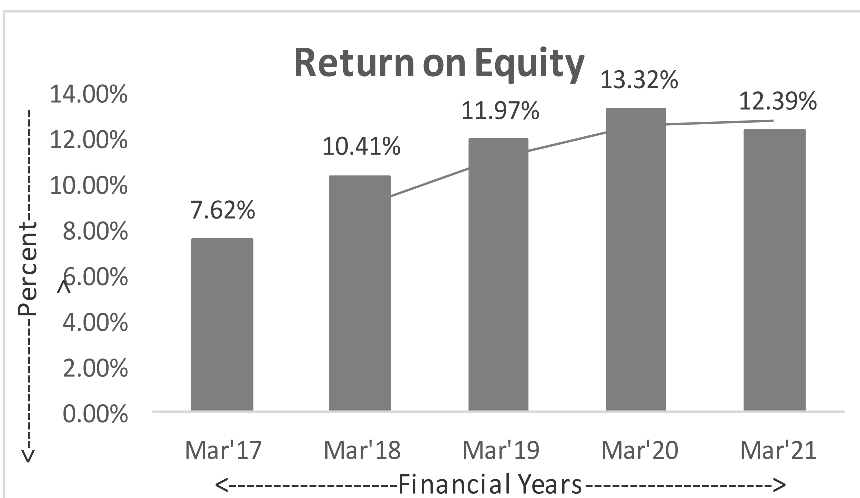
- Higher the Net Profit Margin better is the overall operational efficiency of the business. In case of Cipla ltd. it can be seen from the above chart that the Net profit margin is growing at an increasing pace over the preceding 4 years. In FY18 the operating profit margin saw a significant surge by 45.43% compare to FY17, it was due to the rise in the net profit, in FY19 and FY20 it grew at 6.12% YOY and in the FY21 it took a marginal plunge due fall in the pace of net profit growth rate. The 5 years average net profit margin is 15% it signifies that the company has good overall profitability.

**(c) Return on Equity**

Return on Equity (ROE) is a ratio that provides investors with insight into how well a company's management is handling the money that shareholders have contributed to it. Higher ROE indicates that the management of a company efficiently has generated income and growth from its equity financing. This ratio is beneficial when comparing firms that belong to the same industry as it tends to give accurate indications of which companies are operating with greater financial efficiency and evaluation of any company with primarily tangible assets rather than intangible.

$$\text{Return on Equity (ROE) Formula} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

| Financial Year | Net Profit | Shareholder's Equity | Return on Equity |
|---|---|---|---|
| Mar'17 | 974.94 | 12,800.51 | 7.62% |
| Mar'18 | 1,468.52 | 14,113.52 | 10.41% |
| Mar'19 | 1,888.41 | 15,781.91 | 11.97% |
| Mar'20 | 2,318.17 | 17,402.96 | 13.32% |
| Mar'21 | 2,468.28 | 19,927.56 | 12.39% |



| Average ROE Margin | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 12.39% | 12.56% | 11.14% |

**Interpretation**

•High return on equity shows that the business was able to successfully utilize the resources provided by its equity investors and its accumulated profits in generating income. In case of Cipla ltd. it can be seen from the above chart that the return on equity is growing at an increasing pace over the preceding 4 years. In FY18 the return on equity saw a significant surge by 26.20% compare to FY17, it was due to the significant surge in the net profit, in FY19 and FY20 it grew at a steady rate of 4.40% YOY and in the FY21 it took a marginal plunge due fall in the pace of net profit growth rate. The 5 years trend of return on equity ratio is upward sloping, it signifies that the company it to successfully utilizing the resources provided by its equity investors. .

**(d) Return on Capital Employed**

ROCE shows earnings or profits in terms of invested capital. With this ratio, a company can understand how much is invested and what is the percentage of earnings to investors. Unlike ROE which only analyses profitability related to a company's shareholder's equity, ROCE considers debt and equity. ROCE aids to neutralize financial performance analysis for companies with significant debt.

$$\text{Return on Capital Employed} = \frac{\text{EBIT}}{\text{Total Assets} - \text{Total Current Liabilities}}$$

| Financial Year | EBIT | Capital Employed | Return on Capital Employed |
|---|---|---|---|
| Mar'17 | 1,226.14 | 9,261.88 | 13.24% |
| Mar'18 | 2,000.82 | 9,156.80 | 21.85% |
| Mar'19 | 2,509.80 | 8,940.16 | 28.07% |
| Mar'20 | 3,000.36 | 11,378.60 | 26.37% |
| Mar'21 | 3,395.73 | 12,771.56 | 26.59% |

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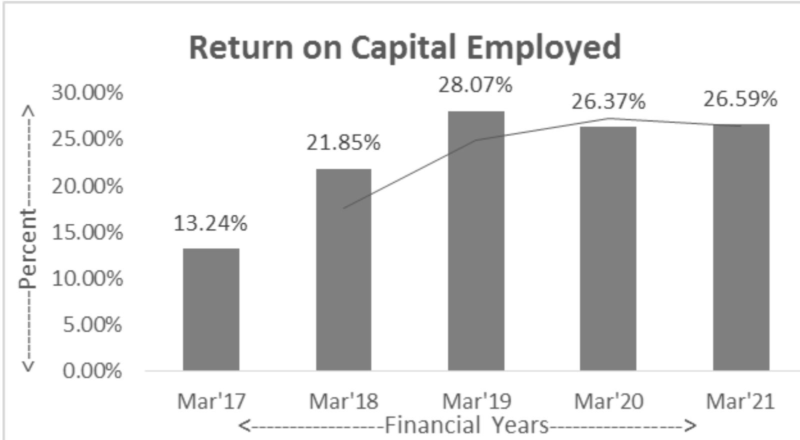


| Average Operating Profit Margin | | |
|---|---|---|
| 1 Years | 3 Years | 5 years |
| 26.59% | 27.01% | 23.22% |

**Interpretation**

•High return on capital shows that the business was able to successfully utilize the resources provided by its equity investors and lender. In case of Cipla ltd. it can be seen from the above chart that the return on capital was growing at an increasing rate in FY17,FY18 and FY19 it was due to the significant surge in the EBIT ,in FY20 and FY21 there was stagnation in the return on capital ratio it was due to the increasing in the EBIT in decreasing rate and rapid surge of capital employed .The last 5 years trend of return on capital ratio is upward sloping, it signifies that the company it to successfully utilize the resources provided by its equity investors and the lender.

## Conclusion

From the study it can be concluded that the firm's performance has drastically improved in covid pandemic compare to its pre covid performance, in terms of liquidity, Cipla ltd is highly liquid, which signifies that the firm can pay off the short-term debt obligation. In the case of leverage, the firm has a conservative capital structure where most of the funds are sourced through shareholders. The firm also has enough operating income to cover the interest payments that are due. In the case of operating efficiency, it is seen that the firm has not been able to generate adequate sales volume in comparison to the available assets. In case of the Profitability, the firm has shown a positive trend in its profit margin year on year. Overall, Cipla Ltd. has good and satisfactory liquidity, leverage, and Profitability position but they need to work on their efficiency in utilization of their assets.

## Suggestion

The company should focus on their efficiency in utilizing their assets although they have higher inventory turnover ratio but the trend shows a sign of stagnation in their YoY growth of inventory turnover ratio and the asset turnover ratio shows a downward trend which signifies that they are not able to utilize their asset efficiently.

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