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Financial Performance Analysis of Sun Pharma.

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ABSTRACT

This paper aims at analysing the financial performance of the company, Sun Pharmaceutical Ltd. (hereinafter referred to as Sun Pharma), with specific reference to India Business, through financial ratios. Initially the financial performance of Sun Pharma is analysed in terms of Net Sales, Net Profit, Assets and EPS. In addition, the financial performance of the company is compared with Indian pharma industry average. The industry average is established by considering the weighted average performance of five pharma companies, which are listed in BSE and ranked according to market capitalization. For this purpose financial ratios of the category viz., Liquidity, Asset Management, Debt Management, Profitability and Market are applied. It is observed from the study that the financial ratios, based on the stand alone key information, may give lackluster impression about the company's current financial performance but their strategic decisions, of global exposure through the mergers and acquisition route, are expected to change its present scenario in the near future.

Keywords: Liquidity, Profitability, market capitalization, net worth,

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INTRODUCTION

Pharmaceuticals market in India is the 3rd leading industry on capacity and thirteen primary on its worth, as per a report by equity master. Renowned brand-name drugs control the demand for drugs, forming part of almost 70 to 80 per cent of the total demand for drugs. India is the leading source of brand-name medicine worldwide with the Indian brand-name medication constituting 20 per cent of global exports relating to quantity. In recent times, merger is becoming an central feature of the market for pharma products in India as the business is very much disjointed. India commands a significant position in the universal pharmaceuticals sector. The country also has a huge collection of scientists and engineers who possess the ultimate to maneuver the manufacturing activity to bring about advanced stage. [1]

Market Size

Pharma Business in Indian industry is expected to nurture at twenty per cent compound annual growth rate (CAGR) in the next five years as per Fitch rating. Currently the business range of the pharmaceutical industry in India stands at US\$ 20 billion. As on March 2014, Indian pharma business built-up amenities registered with the US Food and Drug Administration (FDA) stood at 523, maximum for any country outside the US. India's biotechnology industry include bio-pharmaceuticals, bio-services, bio-agriculture, bio-industry and bioinformatics is estimated to raise at a normal growth rate of around thirty per cent a year and reach US\$ 100 billion by 2025. Bio-pharma, deals with vaccines, therapeutics and diagnostics, is the leading sub-sector causative nearly 62 per cent of the total revenues at Rs 12,600 crore (US\$ 1.90 billion). [2]

About Sun Pharma

Sun Pharmaceutical Industries Limited is a top global specialty generic and India's pharma giant. Through its highly experienced and expert team, range of operations and a well structured business, the company is able to offer superior goods promptly at reasonable prices. It provides high quality, inexpensive medicines trusted by customers and patients in over 150 countries, globally. Sun Pharma is the largest Indian pharmaceutical company in emerging markets. It has more than 30,000 employees worldwide. The company made Global revenue of US\$ 4.5 billion for year ended 31st March, 2015. The company has more than 2,000 Products marketed as No.1 rank by prescriptions with 13 different doctor categories in India.

The company has 48 Manufacturing facilities across six continents and it is the 5th largest generic pharmaceutical company in the US. (Source: Annual Report of Sun Pharma – 2015)

Objectives of the study

The objectives of the study are to analyse the key financial information of Sun Pharma, and to compare its financial performance with pharma industry average.

Scope of the study

This study is based on the financial performance of Sun Pharma pertaining to India business. For the purpose of this study, the key financial information for five years has been considered.

Data & Methodology of study

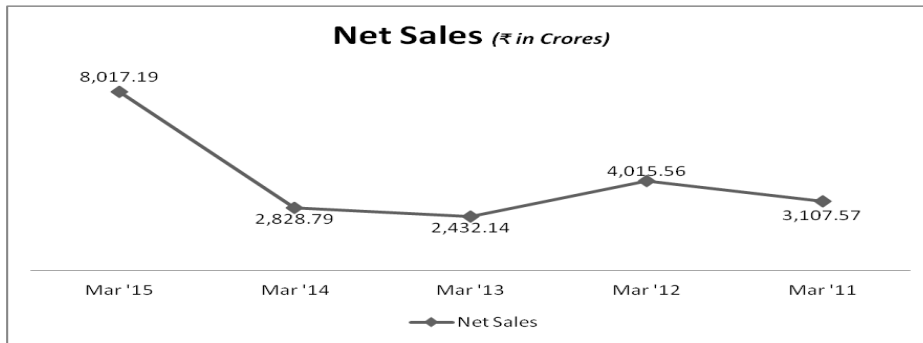
Sun Pharma's financial performance is studied by considering key financial data for the period between March 2015 and March 2011. The industry average is established based on the standalone key financial information of five companies like Lupin, Dr.Reddy, Cipla, Aurobindo Pharma, Cadila Health, taken from www.moneycontrol.com.

The companies for industry average are selected on the basis of the BSE Sensex market capitalization of more than ₹40,000 crores. The industry average is established by taking the data for the period between March' 2015 and March'2014.

Key Financial Highlights:

Turnover:

Fig.1



It may be observed from Fig.1 above, that the Net sales of March 15 and March 14 has increased at the rate of 183% and 16% on y-o-y basis. In comparison of the turnover of Sun Pharma with industry average it is found that the turnover of the company has increased by 11% whereas the turnover of the industry has increased by 16% between March 15 and March 11.

Operating Profit

Fig.2

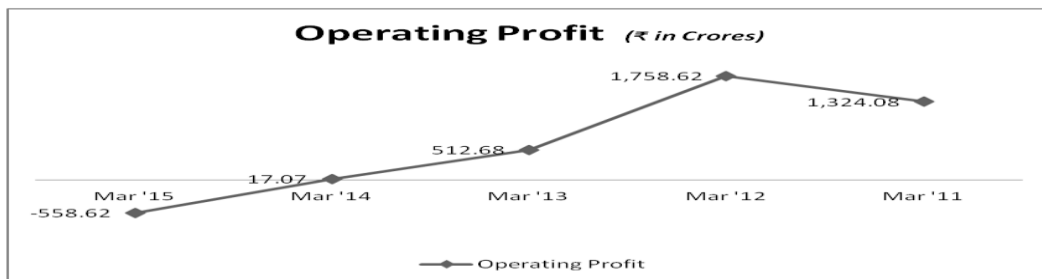
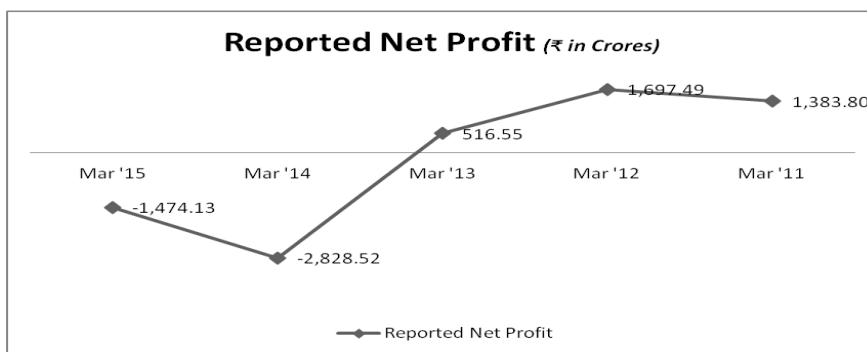


Fig.2 indicates that there is a decline in operating profit since March '13. The operating profit of the company declines at an average rate of 11% between March '15 and March '13. The industry average on operating profit is increasing at 17%, the company's operating profit is declining at 7% between the period March '15 and March '11.

Net Profit

Fig.3

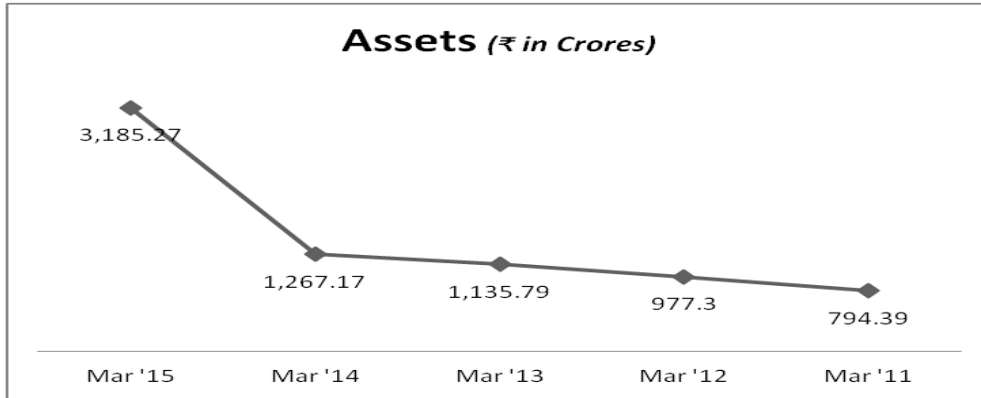


The above graph of Sun Pharma shows that the interest, depreciation and tax obligation has further declined its net earnings. It may be observed from the above figure that the company has reduced its loss to

-48% in March'15 from -648% in March'14. While the industry average of Net Profit is at 17%, the company is reporting a loss of -2.57% for the period between March'15 and March'11.

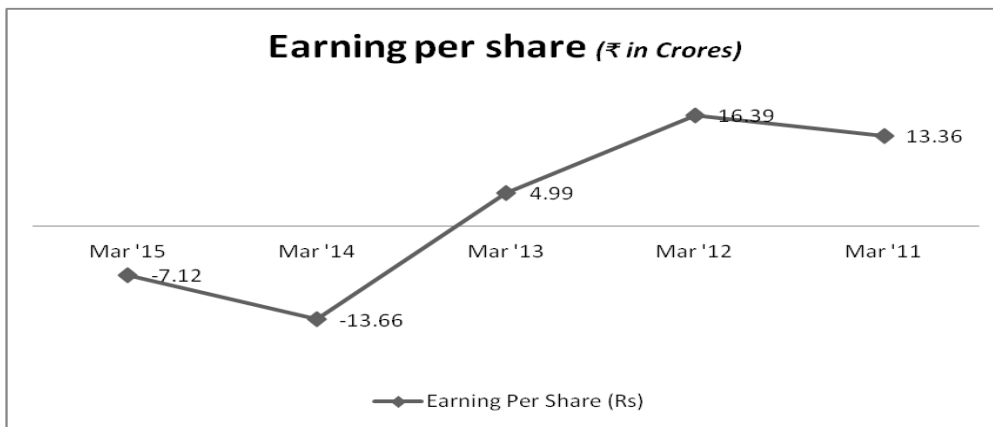
Assets

Fig.4



From the above graph it is clear that the company is consistently increasing its investments on assets. The investments made on assets have increased to 151% in March'2015 from 12% in March'2014. Upon comparing with the industry average which is at 17%, the company maintains an average of 12%. The increase in investments made indicate that the investors expect growth in the company's future earnings.
3.5 Earnings per share

Fig.5



It may be observed from the above graph that the loss per share is reduced to -48% in March'15 from -373% in March'14. The industry average is at 16% where as the company is maintaining its earnings per share at 1.43%.

Ratio Analysis

Liquidity Ratio

Liquidity ratio shows the company's capability to manage its current financial obligations. Current and quick ratios are the two important indicators of liquidity of company. The current and quick ratios of Sun Pharma, as against industry average are presented below:

Fig.6

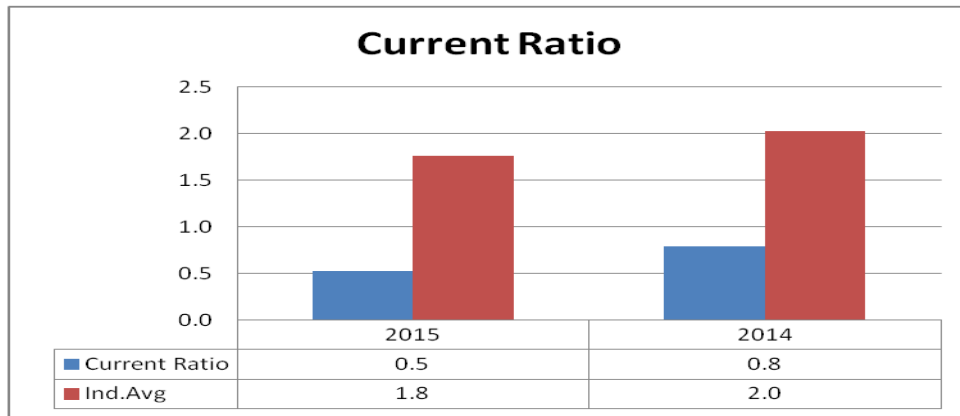
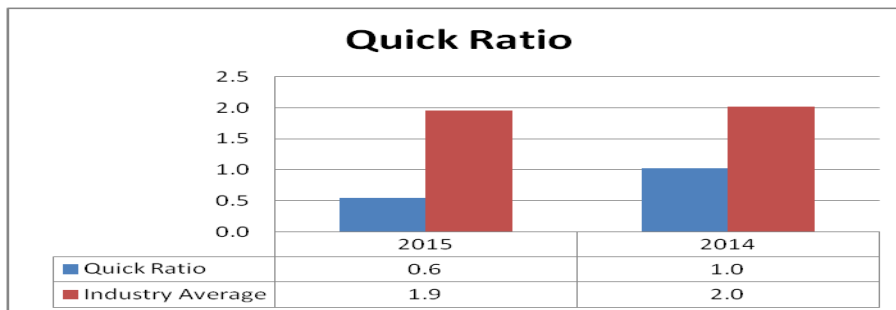


Fig.7



The current and quick ratio of Sun Pharma is below the industry average. Upon reviewing the components of current assets and liabilities, it is found the investment on inventories and sundry debtors has increased to 1.38 times and 2.98 times in March'15 where as current liabilities has increase by 4.8 times.

Asset Management Ratios

Inventory turnover ratio indicates the number of times its inventory is sold during a period. Debtors turnover ratio measures the average collection period.

Fig.8

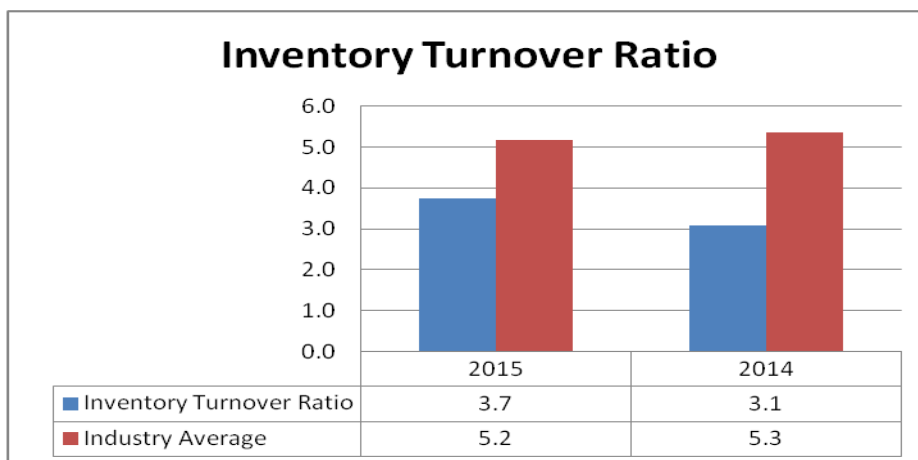
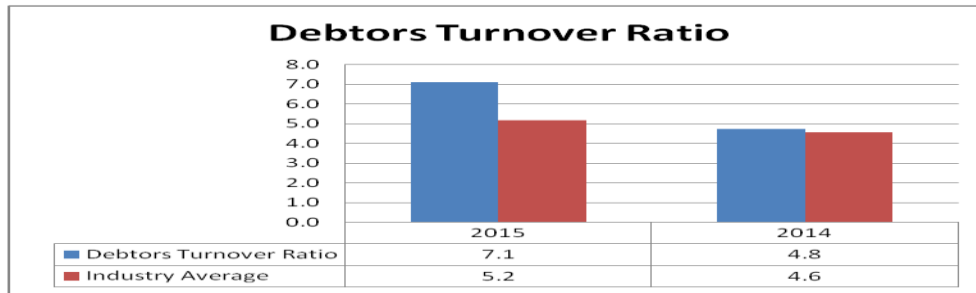


Fig.9



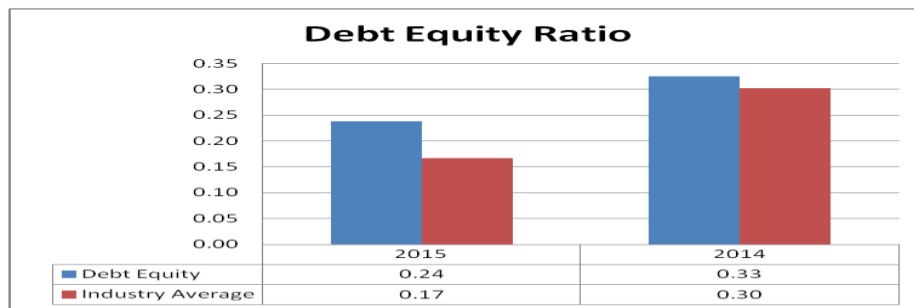
From the graph shown above the Inventory and Debtors turnover ratio of Sun Pharma is below the industry average which indicates that the number of times its inventories were sold in March'15 and March'14 is less than the industry average. However, the inventory turnover of the company has increased in March'15 as against March'14.

The average collection period and credit policy of a company is measured through the receivables turnover ratio. The debtors turnover ratio of the company according to the graph above is greater than the industry average which indicates that the company is following a liberal credit policy.

Debt Management Ratio

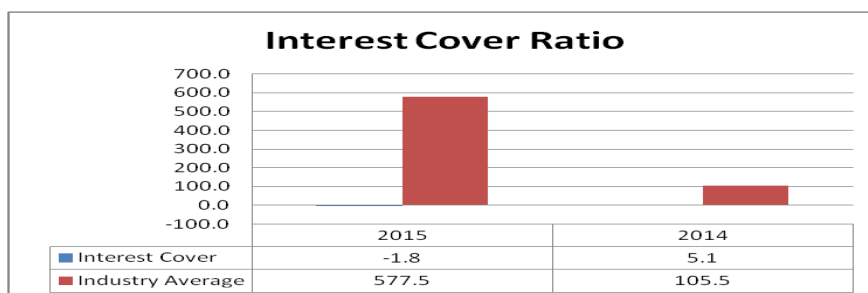
Debt Equity ratio measures the relative proportion of shareholder's funds and long term borrowings used to finance the company's assets. Through the Debt-Equity ratio, the financial leverage of the company is measured by dividing company's long term liabilities by its shareholder's equity.

Fig.10



Debt-Equity ratio of Sun Pharma is greater than the industry average which indicates that the company is highly levered as compared its peers. However, the company's the D/E is declining in March'2015 as against March'2014. The increase in D/E ratio of the company in March'2014 may be due to their acquisition program.

Fig.11

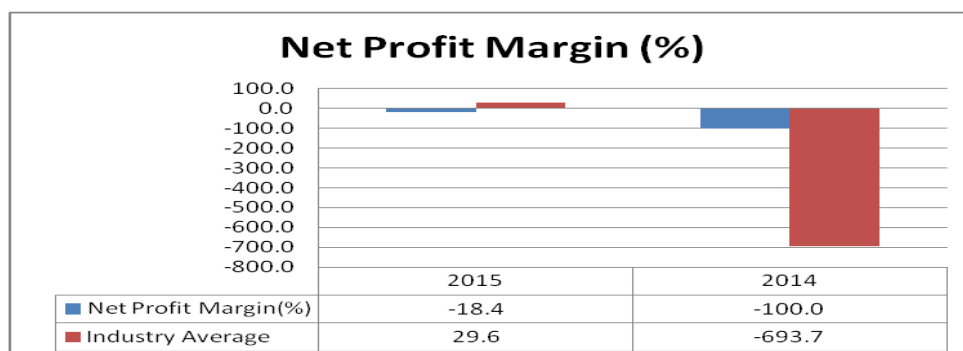


Interest cover ratio indicates the ability of the company to earn to meet its interest obligations. From the above it may be observed that the interest coverage ratio of the company is much less than the industry average.

Profitability Ratio

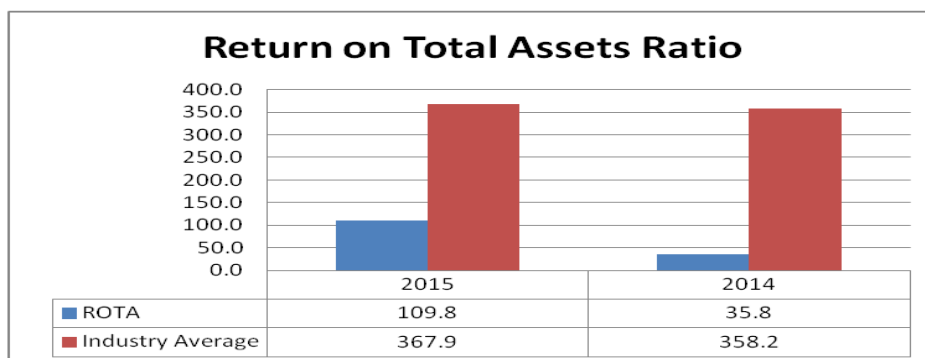
Earning power and over all managerial efficiency of a firm is measured through Profitability ratios. Net Profit Margin ratio indicates the percentage profit on revenue showing the earning capacity of a firm. Return on total Assets indicates the effective employment of firm’s assets to generate income. The performance of the company in terms of above two ratios and its comparison with industry average is shown below:

Fig.12



From the above graph it may be observed that the Net profit margin of the company is negative in both the years March’15 and March’14. The percentage of loss is much less in March’14 as against the industry average. Similarly, decline in the percentage of loss of the company in March’15 indicates that their strategic decision of integrating with Ranbaxy has contributed favourably to minimize its loss.

Fig.13

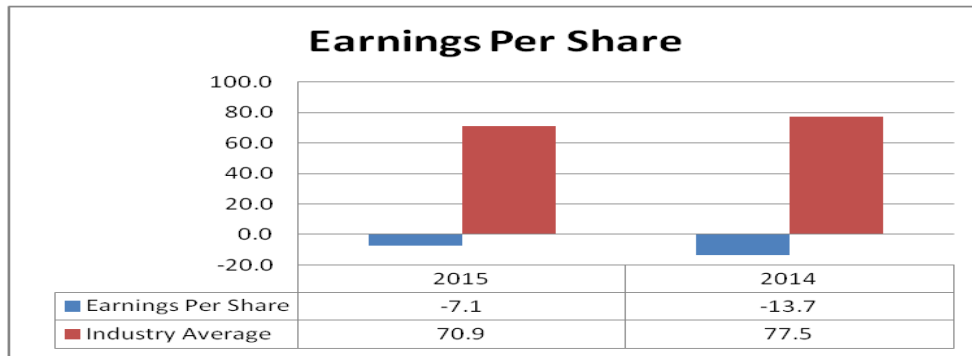


It is clear from the above graph that the company’s ROTA is less than the industry average. However Sun Pharma’s return on total assets has increased significantly in March’15 as against its position in March’14.

Investment worth Ratio

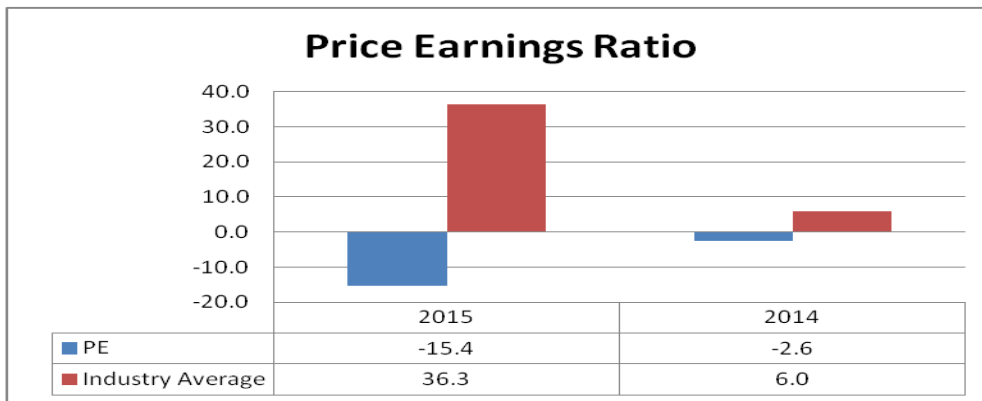
Investor’s expectations from a company for the investment made them are measured through Market worth ratios. It includes the ratios like earnings per share, price earnings ratio and book value per share. The comparison of Sun Pharma’s performance with industry average is presented below:

Fig.14



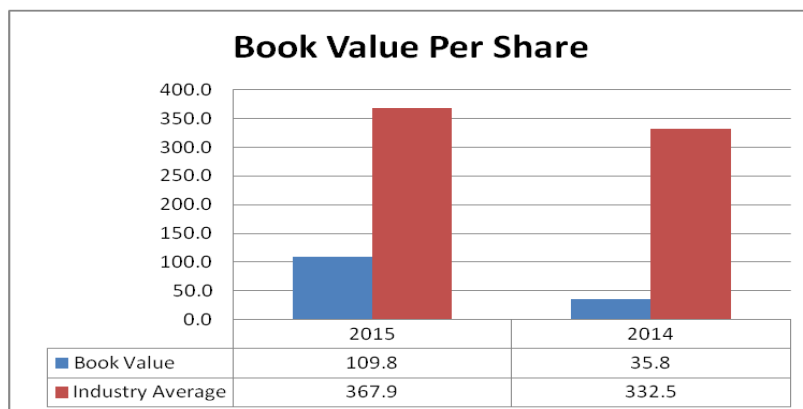
The EPS (Earnings per share) is a measure of relationship between the net earnings with the common shares outstanding. It indicates the return on investment made by shareholders at prevailing market prices. Even though the EPS of Sun Pharma is much below the industry average, the loss per share has reduced significantly in March'15 as against the corresponding previous period.

Fig.15



Investor's willingness to pay for the company's shares and their assessment about the company's future earnings is measured using PE (Price Earnings Ratio) ratio. From the above graph it may be observed that the PE ratio of Sun Pharma is negative in both the years as compared to the industry average. On the face of it, it appears that the investor's have negative view about the company's future earnings, but the company's high market capitalization shows that the promoter and the institutional shareholders, who hold major portion of shares, have high confidence about the future performance of the company.

Fig.16



Book Value per Share (BVPS) measures the worth of the company by comparing the company's net worth with the number of outstanding common shares. Even though the BVPS of Sun Pharma is below the industry average, the ratio has significantly improved in March'15 as compared to March'14 due to the strategic decisions of the company.

Annexure: Industry Average

Calculation of Industry Average based Ratios of March'15 and March'14

Category	Ratios	Sun Pharma		Lupin		Dr Reddy's Lab		Cipla		Aurobindo Pharma		Cadila Health		Weighted Average	
		2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Liquidity	Current Ratio	0.5	0.8	2.5	2.8	1.8	2.0	1.7	1.9	1.4	--	1.2	1.4	1.8	2.0
	Quick Ratio	0.6	1.0	1.7	2.3	2.6	2.7	1.3	1.5	2.4	--	1.4	1.6	1.9	2.0
Asset Management	Inventory Turnover Ratio	3.7	3.1	5.7	6.6	5.9	6.2	3.1	3.8	3.8	4.3	6.7	6.1	5.2	5.3
	Debtors Turnover Ratio	7.1	4.8	3.6	3.8	2.2	2.6	5.4	5.6	2.4	3.0	5.9	5.8	5.2	4.6
Debt Management	Debt Equity	0.24	0.33	0.00	0.02	0.30	0.29	0.12	0.09	0.54	0.70	0.28	0.39	0.17	0.30
	Interest Cover	-1.8	5.1	656.6	150.6	33.3	32.4	12.3	15.2	15.7	6.3	35.2	23.3	577.5	105.5
Profit	Net Profit Margin(%)	-18.4	-100.0	24.6	26.0	16.8	19.9	11.7	14.8	18.7	--	24.1	22.4	29.6	-693.7
	ROTA	109.8	35.8	200.8	155.7	624.1	548.4	138.1	125.7	183.6	--	221.0	177.3	367.9	358.2
	Earnings Per Share	-7.1	-13.7	53.3	51.8	98.6	113.6	14.7	17.3	51.9	40.2	62.1	44.1	70.9	77.5
Market Value	PE	-15.4	-2.6	3.8	3.0	6.3	4.8	9.4	7.3	3.5	3.4	3.6	4.0	36.3	6.0
	Book Value	109.8	35.8	200.8	155.7	624.1	548.4	138.0	125.6	183.6	137.7	221.0	177.3	367.9	332.5

CONCLUSION

Based on the above analysis through ratios, it is observed that the company's performance is recovering from the down trend. At the same time conclusions drawn based on the ratios alone may not give clear picture about a company's growth trajectory. Similarly, the down trend observed by ratios analysis appears to be a short-term phenomenon. By considering the strategic decisions of the company, the performance of the company is expected to undergo a significant change in the near future.

REFERENCES

- [1] Annual report of March'15 of Sun Pharmaceutical Ltd.
- [2] www.moneycontrol.com
- [3] <http://www.ibef.org/industry/pharmaceutical-india.aspx>