

Short Term Liquidity Position

Ratios	Aurobindo Pharma			Sun Pharma		
	FY11	FY10	FY09	FY11	FY10	FY09
Current Ratio	3.50	3.17	3.50	5.31	6.75	9.48
Quick Ratio	1.74	1.53	1.89	3.70	4.13	6.89
Average daily expenses	96.14	77.17	1007.1	80.03	57.61	47.69
Cash cover for daily expenses	19.57	9.44	30.51	274.11	88.33	350

- The current ratio is an indication of a firm's market liquidity and ability to meet creditor's demands. The current ratio of Sun Pharma has been consistently higher than Aurobindo Pharma from 2009 to 2011. This indicates more working capital for AIS and hence, more short term liquidity.
- As can be observed, the values of quick ratio and current ratio are different for both the firms. This indicates that they both have a substantial inventory.
- Here **quick ratio would be the best judge** of the liquidity position of the sector as it captures only those assets which can be immediately converted to cash. It gives a clearer picture of the available working capital.

Long Term Liquidity Position

Ratios	Aurobindo Pharma			Sun Pharma		
	FY11	FY10	FY09	FY11	FY10	FY09
Total Debt equity ratio	1.328	1.548	2.317	,231	.114	.107
Long term debt to equity ratio	.988	1.178	1.880	.045	.022	.025
Times interest coverage	13.625	12.13	2.450	36.24	231.05	334.19
Equity multiplier	2.404	2.619	3.405	.998	.978	.969

- Total Debt Equity ratio gives a picture that for every rupee of shareholders' funds in the company, how much is the lender's claim. For example, Aurobindo Pharma has a better Total Debt equity ratio as compared to Sun Pharma.
- If debt equity ratio is too high then, it is a very risky situation as the growth of the firm is driven only by borrowing. If debt equity ratio is too low, it implies that the firm is losing out on opportunities by not investing in growth and production.
- The low interest coverage ratio indicates high interest payments due to the huge debt financing of expansion. Thus it is clearly evident that Sun Pharma has low debt burden as compared to Aurobindo Pharmaceuticals.
- The equity multiplier shows the extent of enhancement in returns to an equity holder, due to leverage or borrowing .The value of equity multiplier is on a constant decrease for Aurobindo pharma whereas it is almost constant for Sun Pharma. This indicates a slight change in the net worth of the firm
- The most ratio for the purpose of assessing the Long run solvency is Long term Debt/ Equity ratio as it gives the optimum idea of long run liabilities only which the company needs to settle with the current capital.

Profitability Ratios

Margin on Sales

Ratios	Aurobindo Pharma			Sun Pharma		
	FY11	FY10	FY09	FY11	FY10	FY09
Gross profit margin	53.17	55.41	50.19	74.47	71.18	79.97
Operating profit margin	19.42	23.01	6.68	36.59	37.31	45.76
Net profit margin	.13	15.76	3.26	33.34	35.37	.44

- The gross Profit margin of Sun Pharma is far higher as compared to Aurobindo Pharmaceuticals. This indicates that sun Pharma has a better and a higher control over the market
- OPM is very high in case of Sun Pharma. This indicates higher operating efficiency of the firm.
- Net Profit margin gives you a holistic picture as it captures elements of operating efficiency, financing efficiency and taxation. This is often used to compare margins of various players in the same industry. But there is a flaw in using this ratio as it does not highlight the specific shortcomings of various players respectively.
- In pharmacy sector, the major emphasis is on sales. The game is of volumes once there is an approved product .Thus **operating Profit margin** could be a possible parameter to compare key market players

Return on Investment Ratios

Ratios	Aurobindo Pharma			Sun Pharma		
	FY11	FY10	FY09	FY11	FY10	FY09
Operating profit to operating assets	13.79	16.14	5.94	27.48	33.78	38.56
Return on equity	0.26	36.70	0.08	0.22	18.24	0.31
Return on capital employed	11.57	14.13	2.81	17.73	16.44	25.31

- Operating Profit to Operating Assets ratio is far higher in case of Sun Pharma. This indicates the optimum utilization and performance of Sun Pharma over Aurobindo pharmaceuticals.

- ROE of Sun Pharma is better. This indicates the the firm is utilizing a favorable debt-equity structure.
- **ROCE is a better** measure to judge the profitability of the company because it covers the loans and debts taken by the organization. If this is high then the company will be profitable.

Use of Assets

Ratios	Aurobindo Pharma			Sun Pharma		
	FY11	FY10	FY09	FY11	FY10	FY09
Total assets turnover	74.55	74.62	72.81	60.43	50.40	62.61
Operating assets turnover	82.19	80.97	80.18	74.47	85.76	82.32
Return on Total Assets	0.12	0.12	0.03	0.22	0.19	0.32
Working capital turnover	248.53	253.45	235.24	180.98	137.32	136.01

- Asset turnover is major concern for Aurobindo Pharma, as it is almost equal to the Sun Pharma. Both these organizations have efficient control over their assets.
- Operating Asset turnover is also moving higher every year. This signifies yearly improvement in the utilization of operating assets.
- The working Capital turnover for Aurobindo Pharma is higher than Sun pharma as Aurobindo pharma has better control over working capital. The better measure for asset utilization is Total asset turnover as it encompasses the utilization of the entire available asset.

Return per share of equity

Ratios	Aurobindo Pharma			Sun Pharma		
	FY11	FY10	FY09	FY11	FY10	FY09
Basic EPS	19.57	20.82	18.65	87.5	65.2	87.2

Diluted EPS	17.61	17.81	15.49	87.5	65.2	87.2
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- EPS declined considerably in 2010 and was able to recover in 2011. It shows that return per share of equity of Aurobindo Pharma is very low as compared to Sun Pharma.
- It is profitable to invest in the shares of sun Pharma when compared to Aurobindo Pharma because the EPS values are approximately 3-4 times the EPS of Aurobindo Pharma.
- **Earnings per share** is the single most important number while deciding the share prices, and hence it is a very critical number. Though a very key aspect which is not covered in EPS is the amount of investment used to generate the Net Income. Hence, it's very tough to compare Aurobindo's performance to that of Sun Pharma based only on the value of EPS. Dividend per share is reflective of the dividends handed out by company to its shareholders.

Market Based Ratios

Ratios	Aurobindo Pharma	Sun Pharma				
	FY11	FY10	FY09	FY11	FY10	FY09
Price earnings ratio	10.98	6.42	3.04	4.58	3.52	2.62
Dividend Payout Ratio	0.10	0.05	0.24	0.19	0.21	0.15
Book Value per share	420.00	328.20	230.9	325	276.0	249.0
Price/Book Value	0.46	0.35	0.20	1.23	0.83	0.92

- Dividend paid out in the year 09 was higher than the year 2010 and then in 2011 it has been high again.

- For Sun Pharma the value of dividend payout ratio has seen a consistent increase. It is an attractive option for investment.
 - The Book value per share of Aurobindo pharma is increasing at a high rate and this signifies this is a capital intensive organization. It has raised stockholders equity in the previous years. This has not been the case with Sun pharma for which the BVS has increased slowly.
 - The P/BV value of Aurobindo Pharma is low and so we can interpret that these shares are being traded at a lower rate than their actual value. In contrast the shares of sun Pharma are being traded at a closer price to their BV.
- The **BPS** is the best measure to expect the market value of shares.

Growth based Ratios

Ratios	Aurobindo Pharma	Sun Pharma
External Financing Needed (@30%)	8785.94	6876.14
Sustainable Growth Rate	0.31	0.22

- As compared to Sun Pharma, Aurobindo Pharma needs higher amount of External financing. This can also be attributed to the low profit values of the latter
- But it is evident, that Aurobindo Pharma is less risky an option of investment as it has a higher rate of sustainable growth.

Calculations:



ratios_aurobindo
pharma (1).xlsx



ratios_sun pharma
(2).xlsx

References:

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