

# Financial Analysis of Cipla Ltd.

For the year 2013-14

Course – PGCHRM-20

Faculty : Prof. Ram Kakani

Subject : Financial Management

Prepared & Submitted by:

Praveen Kumar    SID: DH 15030    SMS ID: 2231480

Centre: Belandur, Bangalore

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## 1. Company Profile :

Cipla was incorporated in 1935 by founder Dr. K.A Hamied with a vision to make India Self sufficient in healthcare. Today Cipla is one of the world's largest pharmaceutical companies with strong presence in over 170 countries. Cipla has an employee base of over 20,000. Close to 5-6% of company's turnover is being invested in R&D activities.

Cipla has 34 state of the art manufacturing facilities that make Active Pharmaceutical Ingredients (APIs) and formulations, which have been approved by major international regulatory agencies. Cipla has over 2000 products in 65 categories in more than 40 dosage forms , which cover wide spectrum of disease ranging from communicable, non communicable, common, and emerging disease to even rare diseases.

Reference : Cipla official website

### 1.1 Milestones of Cipla:

Year	Milestones
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1935	Cipla was Founded by Dr. K. A Hamied to make India self-reliant in healthcare
1939	Visit of Mahatma Gandhi to Cipla, Cipla manufactured life saving drugs which was needed at India during world war II
1960	Pioneered API manufacturing in the country and helped lay the foundation for the bulk drug industry in India
1970	Spreadheaded new Patent law by which an indian pharmaceutical company was allowed to manufacture a patented product with change in process of manufacturing, resulting in making medicines available and affordable for all Indians
1978	Pioneered inhalation therapy in India with the manufacture of Metered-Dose Inhaler, today Cipla has world's largest range of inhaled medication and devices
1994	Launched Deferiprone – world's first oral iron chelator, revolutionizing treatment for thalassemia (affordable, painless, and convenient)
1996	World's first transparent dry powder inhaler – changing the face of inhalation therapy in India
2001	Pioneered access to HIV treatment by making (ARVs) available at less than a "Dollar a day". Resulting in revolution where HIV treatment became reality for the world
2005	Produced anti- flu (Bird flue etc) drug in 3 months which would have taken 3 years
2012	Breakthrough in reducing the prices for cancer drugs

## 1.2 Management Team

<b>Name</b>	<b>Designation</b>
<b>Y K Hamied</b>	Chairman
<b>Subhanu Saxena</b>	Managing Director & Global CEO
<b>Ashok Sinha</b>	Non Executive Director
<b>Adil Zainulbhai</b>	Additional Director
<b>Nachiket Mor</b>	Independent Director
<b>Ramesh Shroff</b>	Non Executive Director
<b>Peter Mugyenyi</b>	Independent Director
<b>Adil Zainulbhai</b>	Additional Director
<b>Name</b>	<b>Designation</b>
<b>M K Hamied</b>	Vice Chairman
<b>S Radhakrishnan</b>	Whole Time Director
<b>Peter Mugyenyi</b>	Non Executive Director
<b>Punita Lal</b>	Independent Director
<b>Samina Vaziralli</b>	Executive Director
<b>Ashok Sinha</b>	Additional Director
<b>Rajesh Garg</b>	Executive Director & Global CFO

## 2. Financial Indicators of the organization:

- a) The Company's share price in BSE & NSE bourses
- b) Sales Turnover
- c) Net Profit
- d) Earnings per share

Average Price	52 Weeks High	52 Weeks Low
	752.45	430.35

### 2.1 By Simple Moving Average – Share Price Movement of Cipla

Days	BSE	NSE
30	667.1	667.31
50	645.87	654.91
150	665.26	665.49
200	656.64	656.95

#### Observation:

- The Simple moving average describes that the share price of Cipla has been consistently increasing except between 30-50 days and has again picked-up.

### 2.2 Statement of Financial position

The Statement of Financial position is referred by Balance Sheet. Balance sheet is a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, describing the balance of income and expenditure over the preceding period. The Accounting definition describing Balance sheet is as mentioned below

$$\begin{array}{rcccl}
 A & = & L & + & OE \\
 \text{Assests} & = & \text{Liabilities} & + & \text{Owners Equity}
 \end{array}$$

**Assets :** Assests represents use of funds by the organisation in any form. Assets represent all the funds owned due to business. The three kinds of Assests are Current Assests, Fixed Assets and other Non- current Assets. Examples of Assets are as below.

**Current Assests:** Cash & Bank balance, Recievables, Inventory, pre-paid expenses (eg. Advance Rent, advance loans).

**Fixed Assets:** Fixed assets are tangible in nature eg.

- Plant & Machinery
- Office furniture
- Land
- Vehicles
- Computers

**Other Non-Current Assets:** Other Non- current Assets are intangible.

- Patents
- software implementation (eg. ERP)
- Investments (Long term)
- Franchise rights etc.

**Liabilities :**

Liabilities represents what any organisation owes to outsiders. The two kinds of liabilities are Current Liabilities & Long term Liabilities.

**Current Liabilities:**

- Working capital loan to run the organisation
- Trade Payables
- Salaries payable
- Tax payable
- Statutory payments
- Advance from customers ( eg. Indian Railway takes advance from customers before providing service)

**Long term Liabilities:**

- Long term loans ( secured & unsecured loans)
- Deferred tax liabilities

**Owner's Equity:**

Owner's equity represents the owner's investment in the business after deducting whatever owner's draws or withdrawals from the business plus the net income (or minus the net loss) since the time business has started.

- Share capital

- Retained earnings

### 3.1 Balance sheet Analysis of Cipla During 2014 and 2015

Particulars	March 31, 2015	March 31, 2014
<b>A. Equity and Liabilities</b>		
<b>1. Shareholders Fund</b>		
a) Share Capital	160.59	160.58
b) Reserves & Surplus	10929.56	9931.06
<b>Shareholder's Fund</b>	<b>11090.15</b>	<b>10091.64</b>
<b>2. Non- Current Liabilities</b>		
a) Long term borrowings	0.41	0.43
b) Deffered Tax Liabilities (net)	330.59	311.20
c) Other Long term liabilities	40.00	30.00
d) Long Term Provisions	151.93	73.99
<b>Non-Current Liabilities</b>	<b>522.93</b>	<b>415.62</b>
<b>3. Current Liabilities</b>		
a) Short Term borrowings	1380.20	876.91
b) Trade Payables	1496.60	962.56
c) Other Current Liabilites	352.42	333.20
d) Short term provisions	349.52	244.07
<b>Current Liabilities</b>	<b>3578.74</b>	<b>2416.74</b>
<b>Total Liabilities</b>	<b>15191.82</b>	<b>12924.00</b>
<b>B . Assests</b>		
<b>1. Non- Current Assest</b>		
a) Fixed Assets Tangible	3468.33	3519.59
b) Fixed Assets In- tangible	125.29	4.60
c) Capital work in Progress - Tangible	339.00	319.64
d) Intangible Assests under development	21.71	57.05
e) Non-Current Investments	4063.99	3328.28
f) Long term Loans and advances	576.71	535.30
g) Other Non-current Assests	65.13	61.57
<b>Non- Current Assets</b>	<b>8633.16</b>	<b>7826.03</b>
<b>2. Current Assests</b>		
a) Current Investments	384.11	258.85
b) Inventories	3289.20	2511.16

c) Trade Recievables	2058.91	1728.10
d) Cash and Cash equivalants	82.76	46.04
e) Short Term Loans and advances	589.96	515.56
f) Other Current Assets	153.72	38.26
<b>Current Assets</b>	<b>6558.66</b>	<b>5097.97</b>
<b>Total</b>	<b>15191.82</b>	<b>12924.00</b>

### Observations

- **Current Liabilities:** There has been an increase in current liabilities by 48.08% when compared to last year current liabilities, which can be observed in the Balance sheet. The Current liabilities have increased because of significant increase in short term borrowings, short term provisions & trade payables.
- **Non-Current Liabilities:** There has been an increase of 25.81% in non-current liabilities when compared to last year, which can be observed in the Balance sheet. The Non-current liabilities has increased due to significant increase in long term provisions
- **Current Assets:** From the Balance sheet it is evident that there has been an increase of 28.65% in current assets, where major contributors are increase in inventories, trade receivables, cash and other current assets.
- **Non- Current Assets:** There has been 10.31 % increase in Non- Current assets where major contributors are Non- Current investments & intangible current assets. It is also observed from the Balance Sheet that there has been slight decrease in tangible fixed assets.
- **Owner's Equity:** There is an increase of 10% due to increase in reserves & surplus.

### 3.2 Statement of Comprehensive Income of Organisation :

The profit and loss statement is a summary of the financial performance of a business over a specified period (monthly, quarterly or annually which is most common). It reflects the past performance of the business and is the report most often used by small business owners to track how their business is performing. The P & L statement provides information on all the sales, expenses incurred, Gross profit, EBITDA (Earnings before interest, tax, depreciation & amortization), Operating profit, PBIT (Profit before interest & Tax), PBT( Profit before Tax), Net Profit.

Particulars	March 31, 2015	March 31, 2014
<b>1. Income from operations</b>		
a) Net Sales/ Income from operations ( Net of excise Duty)	9683.29	9111.56
b) Other Operating Income	448.49	345.34
<b>Total Income from Operations (net)</b>	<b>10131.78</b>	<b>9456.9</b>
<b>2. Expenses</b>		
a) Cost of Materials Consumed	3426.74	3145.34
b) Purchase of stock in trade	903.41	773.4
c) Changes in inventory of finished goods, work in progress and stock in trade	-349.05	158.12
d) Employee Benefit Expense	1505.58	1284.75
e) Depreciation and amortisation expense	433.2	323.61
f) Other Expenses	2683.79	2422
<b>Total Expense</b>	<b>8603.67</b>	<b>7790.98</b>
<b>3. Profit (+)/ Loss(-) from operation before other income, financial costs and other items (1-2)</b>	<b>1528.11</b>	<b>1665.92</b>
<b>4. Other Income</b>	<b>147.91</b>	<b>280.28</b>
<b>5. Profit (+)/ Loss(-) before financial costs and exceptional items (3+4)</b>	<b>1676.02</b>	<b>1946.2</b>
<b>6. Finance Cost</b>	<b>136.05</b>	<b>127.86</b>



7. Profit (+)/ Loss(-) before exceptional Items and Tax	1539.97	1818.34
8. Exceptional Item		
9. Profit (+)/ Loss(-) before Tax (7-8)	1539.97	1818.34
10. Tax Expense	358.88	430
11. Net Profit (+)/ Net Loss (-) after tax (9-10)	1181.09	1388.34
12. Paid Equity Share Capital ( Face Value Rs 2 per equity share)	160.59	160.58
13. Reserve excluding reevaluation reserves	10920.59	9922.09
14. Earnigs per share		
Basic	14.71	17.29
Diluted	14.66	17.27

Reference: Official Cipla Website audit report

Particulars	2015	2014
<b>Income</b>		
Sales Turnover	10,224.72	9,380.29
Excise Duty	92.94	0
Net Sales	10,131.78	9,380.29
Other Income	147.91	280.28
Stock Adjustments	349.05	158.12
<b>Total Income</b>	<b>10,628.74</b>	<b>9,818.69</b>
<b>Expenditure</b>		
Raw Materials	4,414.37	4,002.79
Power & Fuel Cost	198.19	191.84
Employee Cost	1,505.58	1,284.75
Other Manufacturing Expenses	0	0
Selling and Admin Expenses	0	0
Miscellaneous Expenses	2,401.38	2,069.50
Preoperative Exp Capitalised	0	0

Total Expenses	8,519.52	7,548.88
Operating Profit	1,961.31	1,989.53
PBDIT	2,109.22	2,269.81
Interest	136.05	127.86
PBDT	1,973.17	2,141.95
Depreciation	433.2	323.61
Other Written Off	0	0
Profit Before Tax	1,539.97	1,818.34
Extra-ordinary items	0	0
PBT (Post Extra-ord Items)	1,539.97	1,818.34
Tax	358.88	430
<b>Reported Net Profit</b>	<b>1,181.09</b>	<b>1,388.34</b>
Total Value Addition	4,105.15	3,546.09
Preference Dividend	0	0
Equity Dividend	160.59	160.58
Corporate Dividend Tax	32.69	27.29
Per share data (annualised)		
Shares in issue (lakhs)	8,029.60	8,029.21
Earning Per Share (Rs)	14.71	17.29
Equity Dividend (%)	100	100
Book Value (Rs)	138	125.57

Reference : Moneycontrol

### Observations :

- Cipla had an increase in sales turnover by 9% resulting in net sales of 8%
- Cipla also had a significant % increment of 120 in stock adjustment
- Cipla had an increase in expenses for raw materials by 10% and employee cost by 17%, which would have taken place for the R & D activity to bring new product into market and also expansion. It has also recorded increase in miscellaneous expenses by 16% and all the above resulting in increase of 12.85% in total expenses
- Cipla therefor has recorded decrease in operating profit compared to the previous year by around 10 %, primarily due to change in product mix, higher investments in R &D and Talent acquisition.
- It is also recorded that Net sales of the organisation has increased by 8% however increase in expense is by 12.85%, resulting in decrease of profit compared to the previous year profit.
- Also Cipla has recorded a significant decrease in earnings per share by 14.92 %, which is result of decrease in operating profit thereby PBT followed by Net Profit.

### 3.3 Comparison of Company performance in last 5 years.

Particulars	2015	2014	2013	2012	2011
Reserves	10,920.59	9,922.09	8,699.97	7,380.73	6,443.40
Networth	11,081.18	10,082.67	8,860.55	7,541.31	6,603.98
Total Liabilities	12,461.79	10,960.01	9,826.36	7,553.51	7,044.46
Unsecured Loans	1,379.94	877.34	956.32	2.2	437.53
Total Debt	1,380.61	877.34	965.81	12.2	440.48
Total Liabilities	12,461.79	10,960.01	9,826.36	7,553.51	7,044.46
Total Assets	12,461.79	10,960.01	9,826.36	7,553.51	7,044.46

#### Observations :

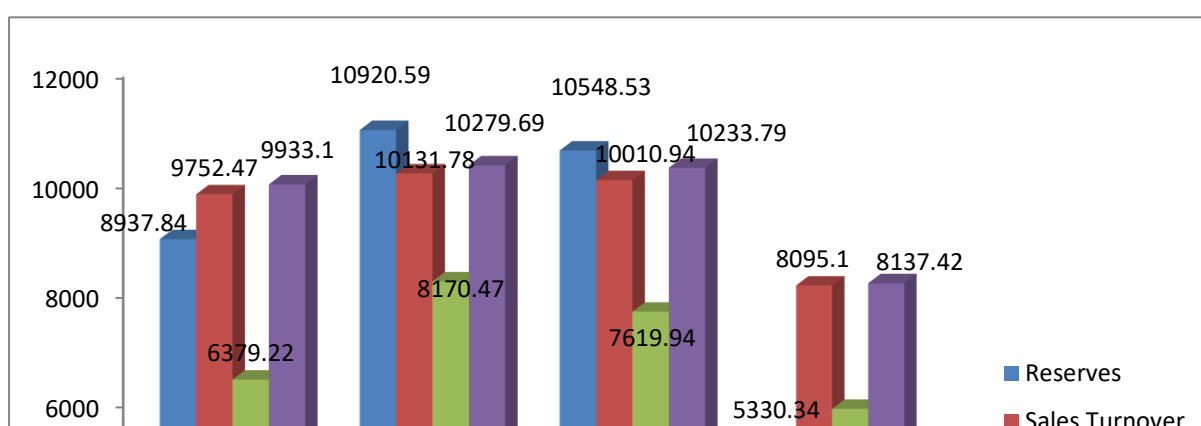
- There has been consistent YoY reserves increase between 14 to 17% during 2012-2014, however it has gone down to 8% increase between 2014-15 reason being recent acquisition.
- There is decrease of unsecured loans observed by 8.25% during 2013-14, however again increase in 2015 by around 57% also indicates that company has been involved in coming up with new product mix, investment in R & D, Top talent acquisition, acquisition of 3 companies in the recent past.

### 3.4 Competitor Analysis:-

The Competitor company's chosen for analysis are as mentioned below.

- Lupin
- Cipla
- Dr. Reddy's Lab
- Aurobindo Pharma

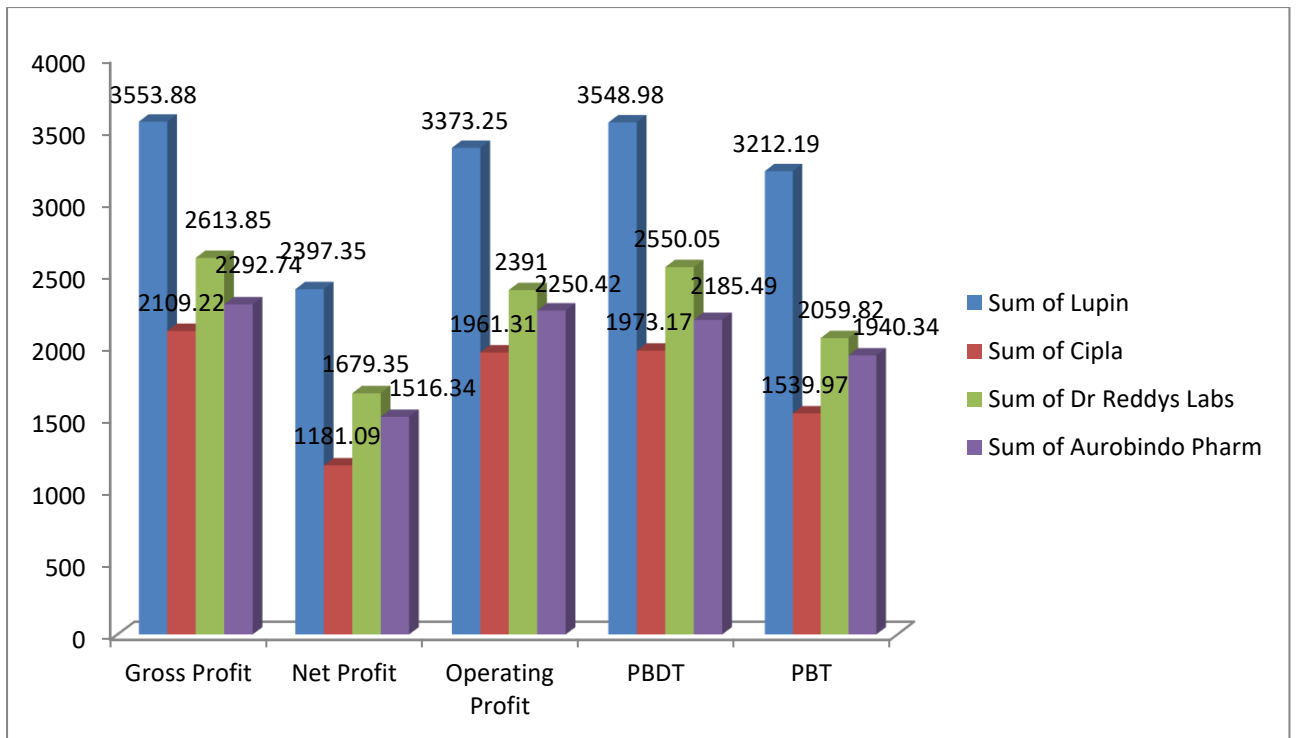
### 3.5 Comparison of Reserves, Sales Turnover, Total Expenses and Total Income



#### Observations :

- The above chart clearly describes that Cipla has Maximum reserves then any of the competitor
- Also Cipla's sales turnover & total income is maximum, very closely followed by Dr. Reddy's Lab and Lupin
- Also Cipla is leading other competitors with expenses which indicates the reach of organisation product in global market, investments in R & D and their product mix

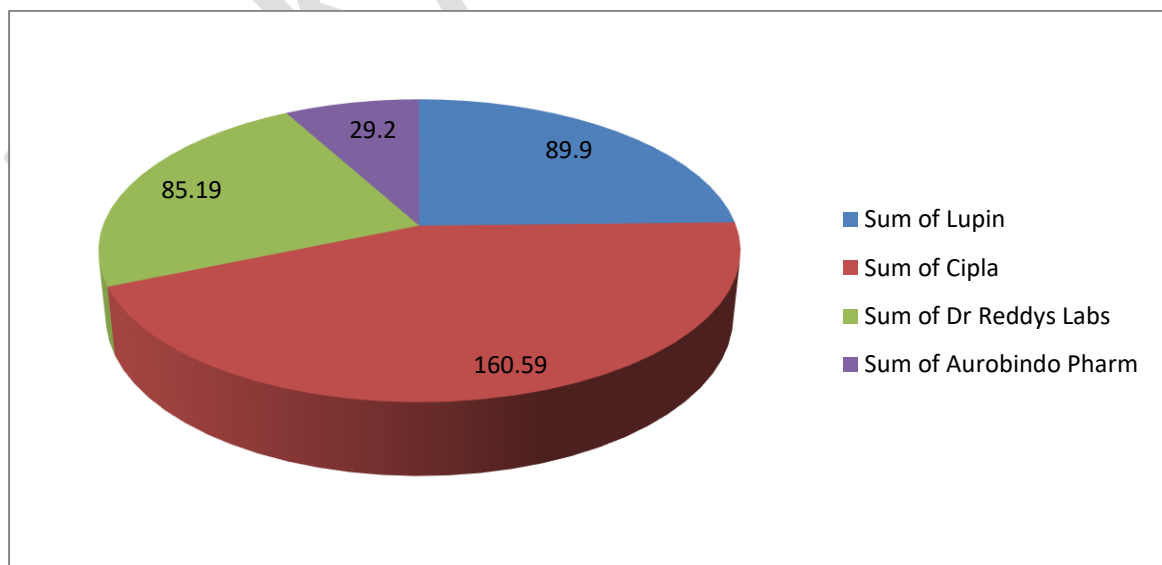
#### 3.6 Analysis of Operating Profit, Gross Profit, Net Profit, PBDT & PBT



Observations :

- Gross Profit, Operating Profit, profit before depreciation & Tax, Profit before Tax for Cipla has been minimal when compared with all the other three competitors, which is result of investments, expansion & reach in new markets, product mix and recent acquisition of companies by cipla.

3.7 Analysis of Equity:



Observations:

- Above pi-chart clearly specify that Cipla has highest equity (Owner's & retained fund) compared to any of the competitor, which clarifies that financial health of organisation is very strong

### 3.8 Cash Flow from operating activity for Cipla:

The cash flow statement reports the cash generated and used during the specified period. Net Profit before tax is calculated from the profit & loss statements and we carry forward with other line items in the below table.

Cash flow Statement as on March			
Particulars	2014	2015	2015
Net Profit Before Tax		1539.97	1818.34
Adjustments for			
Depreciation and amortization expense	433.2		323.61
Finance Cost	136.05		127.86
Unrealised Foreign exchange gain (Net)	-0.76		-35.61
Expense from Employee Stock option Scheme (ESOSs)	39.44		18.41
Bad debts and provisions for doubtful debt & advances (Net)	10.23		27.54
Interest Income	-5.98		-13.92
Dividend Income	-21		-71.41
Profit on Sale of Current Investments (Net)	-45.07		8.01
Loss on Sale / discard of Fixed Assets (Net)	8.01		6.95
Rent Income	-3.07		-2.7
		551.05	372.72
<b>Operating Profit before working capital changes</b>		<b>2091.02</b>	<b>2191.06</b>
Adjustments for			
Increase in trade payables & other liabilities	590.25		252.54
Increase in inventories	-778.1		-167.68
Increase in trade and other receivables	-503.5		178.03
		691.2	93.27
Cash generated from Operations		1399.82	2097.79
Direct Taxes paid (Net of refunds)		-348.41	-285.31
<b>Net Cash from Operating activities</b>	<b>A</b>	<b>1051.41</b>	<b>1812.48</b>
<b>B. Cash Flow from Investing activities</b>			

Purchase of fixed Assets/ capital work in progress and intangible		-532.63	-502.23
Sales of fixed Assets		8.05	2.55
Investment in Subsidiaries		-581.85	-
Share Application Money Paid		12.7	2831.92
Purchase of current investments		-20357.9	-
Sale of Current Investments		20277.72	17913.8
Interest received		5.97	15.74
Dividend received		21	71.41
Rent received		3.07	5.34
Loans given to subsidiaries (Net)		-25	-82.92
<b>Net cash used in Investing activities</b>	<b>B</b>	<b>-1194.28</b>	<b>-</b>
			<b>1467.21</b>
<b>C. Cash Flow From Financing activities</b>			
Proceeds from issues of activity shares(ESOSs)		0.01	
Proceeds from (Repayment of) in short term borrowing (Net)		502.9	-112.81
Repayment of long term borrowings		-0.01	-0.13
Finance cost paid		-135.43	-103.48
Dividend paid		-160.58	-160.58
tax paid on dividend		-27.29	-27.29
<b>Net Cash from / (used in) Financing activities</b>	<b>C</b>	<b>179.6</b>	<b>-404.29</b>
Net cash increase / decrease in cash and cash equivalents	A+B+C	36.73	59.02
Opening Cash & Cash Equivalents	46.04		105.07
Exchange difference on translation of foreign currency cash & cash equivalents		-0.01	-0.01
<b>Closing Cash &amp; Cash Equivalents - End if the year</b>	<b>82.76</b>		<b>46.04</b>

### Observations:

- There is increase in PBT by around 18% compared to previous year
- There is a minor increment of 4% in operating profit compared to previous year
- Marginal increase of 72% in net cash from operating activities observed mainly due to decrease in inventories and cash generated from other operations.
- Compared to last previous year cipla has used 22.85% more of cash in investing activities

- Also its visible from the cash flow statement that there is a decrease by 325% in net cash from financing activities major reason being last year there was inflow of cashv(502.9 Crore) through borrowing , however current year they have made short term loans & advances of 112.81 Crore.

### 3.9 Cipla Ratio Analysis :

Balance sheet ratio helps to determine the financial health of the company.

**Solvency Ratio :** The Solvency ratio provides financial information of the company with details like if the company has enough cash, assets and low debt to continue operations without getting into financial trouble.

### 3.10 Short Term Solvency Ratio

Short Term Solvency Ratio					
S.No	Ratios	Formuale	Mar-15	Mar-14	Observations
1	Current Ratio	Current Assets / Current Liabilities	1.83267295	2.10944082	The Current ratio has slightly decreased because of marginal increase in liabilites
2	Quick Ratio	(Current Assets - Inventory)/ Current Liabilities	0.91357852	1.06772567	The Quick ratio has decreased even after increase in assets mainly because of increase in liabilities, though even inventories has increased from 2511.6 Cr to 3289.2 Cr
3	Cash Ratio	Cash / Current Liabilities	0.02312546	0.01905046	Cash ratio has increased even after increase in liabilities mainly due to increase in cash & cash equivalants



## 3.11 Long term Solvency Ratio:

Long Term Solvency Ratio					
S.No	Ratios	Formuale	Mar-15	Mar-14	Observations
1	Debt/ equity Ratio	Total Debt / Total equity	8.59711065	5.46356956	Increase in Debt to equity ratio because the company is working on high leverage and has maintained a high debt ratio
2	Total Debt-Equity Ratio	(Total Assest-Total Equity)/ Total Assets	0.98711341	0.98534855	Total debt equity ratio has observed a minor decrease by 0.01 companred to previous year
3	Times Interest earned	EBIT/ Interest	14.416097	15.5602221	Times interest earned has a slight decrease compared to previous year
4	Cash Coverage Ratio	EBDIT/ Interest	15.5032709	17.7523072	Times interest earned has decreased by 2.25 compared to previous year
5	Operating Margin Ratio	Operating Income / Net Sales	0.19358000 3	0.21209685 4	There is decrease in Operating Margin ratio

## 3.12 Profitability Ratio:

Profitability ratio					
S.No	Ratios	Formuale	Mar-15	Mar-14	Observations
1	<b>Net Profit Margin %</b>	Net Profit / Net Sales	11.6572804	14.8006085	Net Profit margin % has decreased by around 3 %
2	<b>Return on Assets (ROA)</b>	Net Income / Total Assets	9.47769141	12.6673242	ROA has also decreased by around 3 %

3	<b>Return on Equity (ROE)</b>	Net Income / Total Equity	735.469207	864.578403	Company has very high return on equity though it has marginally decreased compared to previous year
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#### 4. Conclusion :

- Dividend of Rs 2 per share on 802921357 released to investors for a total of 160.58 Crore
- Cipla's revenue has grown from 8,388 crore to 10,218 Crore a total increase of about 21.8% compared to last year
- Increase of 14.7% recorded from domestic business & exports has increased by 25%
- From the P & L statement it's visible that profit has reduced by around 10% to a total of 1389 Crore compared to last year's 1545 crore, this has resulted due to decrease in operating Margin by 5.4%. – Primary reasons has been Increased investment in Research & Development, Change in Product mix ( New Products for critical diseases released in different variance) & Talent acquisition of high quality professionals which would help to enhance product portfolio for future
- It's also observed that Cipla has strong operating cash flow of nearly 60% of operating profit
- Profit, Net Cash etc. has also reduced compared to previous year because of 3 major acquisitions.

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