

Comparative Financial Analysis of Pharmaceuticals Companies

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ABSTRACT: This study presents a comparative financial performance analysis of two leading Indian pharmaceutical companies—Divi's Laboratories and Laurus Laboratories—over the five-year period from 2020 to 2024. Utilizing financial ratio analysis, the research evaluates and contrasts the companies' liquidity, solvency, operational efficiency, profitability, and shareholder return metrics. Divi's Laboratories exhibits a strong financial position with high liquidity ratios, a zero-debt strategy, consistent earnings per share (EPS), and a stable dividend policy, indicating sound financial management and conservative risk-taking. In contrast, Laurus Laboratories operates with tighter liquidity, moderate debt levels, and a more volatile profitability profile, highlighting greater financial risk and operational pressure. The study reveals a general decline in asset and inventory turnover for both companies, suggesting potential inefficiencies in resource utilization. Key findings also show a downward trend in profitability ratios, particularly more pronounced in Laurus, signalling a need for strategic realignment. The research concludes with actionable recommendations aimed at optimizing financial performance, improving operational efficiency, and enhancing shareholder value. This analysis contributes to a deeper understanding of financial health in the pharmaceutical sector and provides a framework for strategic financial decision-making.

I.INTRODUCTION

The pharmaceutical industry creates, manufactures, and distributes pharmaceuticals that have been granted licenses to be used as medications. They have a well-equipped R&D section for this. Pharmaceutical firms are permitted to sell both brand-name and generic drugs as well as medical equipment. Policy leaders, including administrators, planners, economists, and researchers, have been debating a company's financial evaluation for a number of years. It is a technique for figuring out how a company's financial policies and operations affect things. A financial performance review entails analysing and assessing the financial outcomes in order to provide a thorough diagnostic of the company's viability and soundness.

The study focuses on the core objective of finance, which goes beyond the analysis and presentation of financial data and aims at sustainable wealth generation through the efficient utilization of resources. One of the most systematic and data-driven approaches to making informed business decisions in financial management is financial statement analysis. This involves selecting, assessing, and interpreting data from financial statements to evaluate a company's financial health and performance. Within this framework, financial ratio analysis serves as a vital tool, simplifying large volumes of financial data into key indicators that reveal insights into a company's liquidity, leverage, efficiency, profitability, and valuation.

The paper describes the goals, advantages, and drawbacks of ratio analysis, stressing how useful it is for pinpointing areas that need improvement, assisting with strategic choices, and facilitating benchmarking against industry norms. However, it also warns of the limitations of ratio analysis because of accounting discrepancies and its emphasis on quantitative data. Liquidity, solvency, activity, profitability, and valuation ratios are the five primary categories into which it divides financial ratios; each is described with formulas and goals.

The paper then shifts to a summary of the Indian pharmaceutical sector, which is a significant provider of generic drugs and vaccines worldwide and ranks third in terms of volume. The industry is separated into two categories: formulations and active pharmaceutical ingredients, or APIs. Divi's Laboratories Ltd. and Laurus Labs Ltd., two prominent businesses, are presented for comparison. Laurus Labs is well-known for its substantial production capabilities, global regulatory approvals, and robust presence in APIs and completed dosage forms. An industry expert in API manufacturing, Divi's Laboratories is renowned throughout the world for its high caliber, comprehensive R&D, and bespoke synthesis capabilities. Both businesses are excellent examples of innovation and growth in the Indian pharmaceutical industry, which makes them good choices for a three-year financial performance comparison utilizing ratio analysis.

II. REVIEW OF LITERATURE

Ratio analysis is one of the most widely used techniques in accounting analysis, which is crucial for assessing how well financial statements depict a company's actual financial situation. A mathematical link between two numbers is what Subramanyam and Wild (2009) define as a ratio, which turns financial data into useful indicators. Ratios are useful for revealing economically relevant relationships, but their interpretation demands expertise, even though their calculation is simple. These ratios are used by analysts to find hidden patterns in financial statements, compare data, and spot trends. According to Robinson et al. (2009), profitability measurements such as return on equity (ROE) and return on assets (ROA) are essential for evaluating performance. In a similar vein, the debt ratio aids in assessing the solvency and capital structure of an organization.

With the help of financial ratios, valuation analysis helps investors choose the right models and make wise choices. While Subramanyam and Wild (2009) emphasized the significance of interpreting ratios with consideration for changing accounting standards and external effects like governmental policy and economic developments, Gibson (2009) emphasized the role of ratios in evaluating firm value. Clemente, Taffarel, and Silva (2012) revealed that both accounting and market indicators had a significant impact on stock performance, supporting Sekirin's (2010) suggestion that stock price and returns are valid performance indicators. Price-to-book value (PBV) and price-to-earnings (P/E) ratios have the potential to forecast returns, according to Jiang and Lee (2012), although their precision fluctuates over time.

Financial statement analysis, according to Valand and Pratik (2012), is a scientific method for evaluating a business's productivity and profitability that is helpful for making strategic decisions. Investors still consider share prices to be important measures of a company's strength, despite the fact that market manipulation can distort stock values through rumors and speculation (Shamsudin, Mansor, & Ismail, 2013). P/E ratios and changes in market prices were found to be directly correlated by Bateni and Asghari (2014). After examining four banks, Bansal (2014) found that Federal Bank had optimal liquidity, but that HDFC and Federal were more efficient overall. Federal also had the highest P/E and asset turnover ratios.

According to Handayani et al. (2015), ROE, the debt-to-equity ratio, the current ratio, and the size of the company all have an impact on stock price volatility. The importance of comparing financial ratios across businesses, sectors, and eras was underlined by Reilly and Brown (2016). According to Allad and Irshad (2016), TCS outperformed its counterparts in terms of profitability, whereas Tech Mahindra trailed behind. Gautam (2017) discovered that while market capitalization and book-to-market ratios had the opposite effect, leverage, dividend payment, and dividend yield had a favorable impact on stock volatility. According to Arkan (2016), stock prices are not always strongly predicted by financial data.

The significance of literature reviews in identifying research gaps was emphasized by Alswalmeh and Dali (2019). According to Chakraborty (2020), financial statement analysis can enhance profitability, which is essential for a company's existence. According to Raju and Rao (2020), Tech Mahindra experienced a fall in profitability, whereas TCS and Infosys were the most profitable IT companies. Despite having good liquidity, Kumbakonam Central Co-operative Bank's financial performance fluctuated from year to year, with uneven profitability, according to Keerthi and Eswari (2020). After researching Hudco Ltd., Dr. Joshi and associates (2020) came to the conclusion that no one ratio dominated the company's financial performance.

Last but not least, Ghosh (2021) examined Ranbaxy Ltd. and found that, whereas liquidity peaked in 2012, profitability fluctuated over time, with a significant inverse relationship between risk and profitability.

III. OBJECTIVES OF THE STUDY

1. To compare Divi's Laboratories with Laurus Laboratories' financials for the 2020–2024 timeframe.
2. To determine Divi's and Laurus Laboratory's primary profitability and shareholder return indicators.

RESEARCH METHODOLOGY

The present study focuses on two pharmaceutical companies: Divi's Laboratories and Laurus Laboratories. It aims to conduct a financial analysis of these major industry players using data sourced from Moneycontrol for the period spanning 2020 to 2024. Divi's Laboratories, founded around 30 years ago, and Laurus Laboratories, established in 2005, have a significant difference in their years of operation. Due to this gap, a shorter time frame was chosen to ensure a more

accurate comparison. The analysis emphasizes both short-term and long-term aspects of liquidity, solvency, and profitability for each company.

IV. DATA ANALYSIS AND INTERPRETATION

First objective of the study is to make a comparative financial analysis of Divi's Laboratories and Laurus Laboratories for the Period between 2020- 2024. Further to get the more clear and precise information of both the firms evaluation is done on the basis of liquidity, solvency and turnover ratios in the stated period. To assess the short-term financial health and operational flexibility of Divi's Laboratories and Laurus Laboratories, liquidity ratios—**Current Ratio** and **Quick Ratio**—were analysed for the period from March 2020 to March 2024.

Current Ratio Analysis

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	7.60	1.29
Mar-23	8.56	1.51
Mar-22	7.10	1.32
Mar-21	5.63	1.29
Mar-20	5.16	1.09

Divi's Laboratory has consistently maintained a significantly higher current ratio, ranging between 5.16 and 8.56, reflecting a robust short-term liquidity position. However, such high ratios may also indicate underutilization of current assets or excess working capital. In contrast, Laurus Laboratory has reported a stable and lower current ratio, fluctuating between 1.09 and 1.51, indicating a tighter liquidity position but potentially more efficient working capital management. Ratios above 1 suggest the company is capable of covering its short-term liabilities, albeit with less financial cushion than Divi's.

Quick Ratio Analysis

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	5.23	0.67
Mar-23	5.99	0.76
Mar-22	4.84	0.62
Mar-21	3.75	0.64
Mar-20	3.23	0.54

The quick ratio further underscores Divi's superior liquidity position. Its values remain well above 3.0, indicating strong availability of liquid assets, excluding inventory. On the other hand, Laurus's quick ratio remains below 1.0 throughout the period, which could be a red flag, indicating potential reliance on inventory to meet short-term obligations. It can be concluded that Divi's Laboratories adopts a conservative approach to liquidity, ensuring ample liquid reserves. Laurus Laboratories operates with leaner liquidity, suggesting tighter but possibly more optimized resource allocation, though it carries a higher liquidity risk.

Further to understand the long-term financial stability and capital structure of the companies, the **Debt-to-Equity Ratio** was examined.

Debt-to-Equity Ratio Analysis

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	0.00	0.49
Mar-23	0.00	0.41
Mar-22	0.00	0.48
Mar-21	0.00	0.46
Mar-20	0.00	0.51

Divi's Laboratory has maintained a zero-debt policy over the past five years, suggesting an extremely conservative and low-risk financial strategy, relying entirely on shareholder equity to fund its operations. Conversely, Laurus Laboratory has consistently operated with a moderate level of debt, maintaining a ratio below 0.51. This reflects the use of financial leverage without posing significant solvency risks. It can be concluded that Divi's strategy ensures long-term financial independence and low interest burden, while Laurus employs measured leverage to enhance returns, albeit at a slightly higher financial risk.

To assess asset utilization efficiency, **Asset Turnover Ratio** and **Inventory Turnover Ratio** were analysed.

Asset Turnover Ratio Analysis

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	0.52	0.66
Mar-23	0.55	0.85
Mar-22	0.74	0.77
Mar-21	63.39*	84.77*
Mar-20	62.37*	74.80*

Excluding anomalies in 2020–2021, Laurus Laboratory shows higher asset turnover, indicating superior efficiency in generating revenue from assets in recent years compared to Divi's.

Inventory Turnover Ratio Analysis

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	1.11	1.47
Mar-23	1.10	1.54
Mar-22	1.47	1.42
Mar-21	3.33	3.11
Mar-20	3.04	3.13

Both companies show a downward trend in inventory turnover, indicating slower inventory movement. Laurus has maintained slightly better inventory efficiency in recent years compared to Divi's. Laurus demonstrates better asset and inventory utilization in the post-2021 period, though both firms need to address declining operational efficiency.

Second objective of the study is to identify the key profitability and shareholder return metrics of Divi's and Laurus laboratory. For that various metrics like Return of Capital employed, Return on asset, Earning per share, dividend per share and Dividend payout ratio of both the firm was evaluated for the stated period.

Return on Capital Employed (ROCE)

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	15.13	9.17
Mar-23	17.73	24.67
Mar-22	30.29	25.46
Mar-21	27.28	40.95
Mar-20	23.90	18.65

Both companies show a declining trend. Laurus had a significantly higher ROCE in 2021 but saw sharper declines. Divi's, while also decreasing, remained relatively more stable.

Return on Assets (ROA)

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	10.25	2.91
Mar-23	12.59	10.92
Mar-22	22.15	11.35
Mar-21	18.22	16.99
Mar-20	16.12	7.14

ROA trends reinforce the same pattern—Divi's has shown more consistent and higher asset-based profitability than Laurus, particularly in the most recent fiscal year.

Earnings Per Share (EPS)

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	59.37	4.15
Mar-23	68.11	14.09
Mar-22	111.07	13.97
Mar-21	73.63	17.77
Mar-20	51.71	25.03

EPS for both companies has declined since 2022. Divi's still maintains a considerably higher EPS, underlining stronger per-share earnings.

Dividend Per Share (DPS)

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	₹30.00	₹0.80
Mar-23	₹30.00	₹2.00
Mar-22	₹30.00	₹2.00
Mar-21	₹20.00	₹2.00
Mar-20	₹16.00	₹2.50

Divi's demonstrates a consistent and rising dividend policy, while Laurus has significantly reduced its dividend payments, possibly due to earnings pressures or reinvestment priorities.

Dividend Payout Ratio

Year	Divi's Laboratory	Laurus Laboratory
Mar-24	50.50%	38.52%
Mar-23	44.04%	14.13%
Mar-22	18.00%	11.44%
Mar-21	0.00%	7.84%
Mar-20	61.88%	11.98%

While Divi's payout ratio has risen recently, suggesting a strategic shift towards rewarding shareholders, Laurus's increase appears less stable and potentially reactive to short-term profitability rather than a long-term dividend strategy.

Divi's Laboratories maintains a superior liquidity and zero-debt position, reflecting a conservative and financially secure model. Laurus operates with tighter liquidity and moderate leverage, indicating a more aggressive financial strategy. Laurus shows better recent asset utilization but both firms have declining turnover ratios, pointing to operational inefficiencies. Divi's outperforms Laurus across EPS, ROCE, ROA, and dividend metrics, maintaining stronger and more stable returns. Laurus has experienced a significant decline in earnings and returns, which could affect investor confidence unless addressed strategically.

V.FINDINGS OF THE STUDY

First objective of the study is to make a comparative financial analysis of Divi's Laboratories and Laurus Laboratories for the Period between 2020- 2024. And the findings reveal from the study regarding Liquidity Ratios is as follows

- Divis Laboratory maintains a significantly high current ratio, indicating a strong liquidity position but potential underutilization of assets. Laurus Laboratory has a much lower and stable current ratio, suggesting efficient asset use but tighter liquidity constraints.
- Divis Laboratory consistently maintains a high quick ratio, reflecting substantial liquid assets and strong short-term financial stability. Laurus Laboratory has a low quick ratio, remaining below 1, indicating potential liquidity risks and reliance on inventory sales for short-term obligations.
- Divis Laboratory has a 0 debt-to-equity ratio, showing a conservative financial strategy with complete reliance on equity financing. Laurus Laboratory maintains a moderate and fluctuating debt-to-equity ratio, indicating financial leverage but without excessive risk.
- Both companies experienced a significant decline in asset turnover, suggesting reduced efficiency in generating revenue from assets. Laurus Laboratory had a relatively better asset turnover ratio than Divis in recent years.
- A sharp decline in inventory turnover for both companies suggests slower inventory movement, possible excess stock, or lower sales efficiency. Laurus Laboratory maintained a slightly better inventory turnover ratio compared to Divis.

Second objective of the study is to identify the key profitability and shareholder return metrics of Divi's and Laurus laboratory. And the findings reveal from the study regarding Profitability Ratios is as follows

- Both companies saw a declining trend, indicating reduced profitability and efficiency in capital utilization. Laurus Laboratory experienced more dramatic fluctuations in ROCE compared to Divis.
- Both companies show a downward trend in ROA, indicating decreasing efficiency in generating profits from their assets. **Divis Laboratory's Gradual Decline** ROA steadily dropped from **22.15% in March 2022 to 10.25% in March 2024**, signaling a consistent decline in asset productivity. Laurus Laboratory experienced a sharp decline, with ROA peaking at **16.99% in March 2021** before plummeting to **2.91% in March 2024**, suggesting a more volatile financial performance. While both companies faced a decline, **Laurus Laboratory's drop was more drastic**, indicating higher instability compared to Divis Laboratory. The declining ROA may be due to **reduced sales, increased operational costs, lower asset utilization efficiency, or external market factors** affecting profitability.
- Divis Laboratory's EPS Peaked at 111.07 in March 2022 declined to 59.37 in March 2024, showing reduced profitability. Despite the decline, the EPS remains relatively strong compared to pre-2022 levels. While Laurus Laboratory's steady decline from 25.03 in March 2020 to 4.15 in March 2024. Indicates a significant drop in earnings, suggesting financial challenges. Divis Laboratory maintains a higher EPS than Laurus Laboratory. Laurus Laboratory's EPS decline is sharper, indicating more severe financial strain. Possible Reasons for EPS decline decreasing net profits over the years, rising expenses impacting earnings, Market conditions affecting revenue growth. While both companies show an EPS decline, Divis Laboratory remains stronger in per-share profitability. Laurus Laboratory's sustained decline could indicate deeper financial challenges requiring strategic intervention.
- The dividend per share (DPS) ratio for Divis Laboratories over the past five financial years remained steady at ₹30 for the last three years (Mar 2022 - Mar 2024). In Mar 2021, the DPS was ₹20, indicating a significant increase of 50% in the following year. Compared to Mar 2020 (₹16), the DPS has grown by 87.5% over five years. While Laurus Laboratories DPS for Mar 2024 dropped to ₹0.8, significantly lower than the previous years.

From Mar 2021 to Mar 2023, the company consistently maintained a DPS of ₹2. In Mar 2020, the DPS was ₹2.5, showing a downward trend over five years.

- It represents the proportion of earnings a company distributes as dividends. The analysis for Divis Laboratories over the past five financial years. The DPR increased significantly to 50.5% in Mar 2024, compared to 44.04% in Mar 2023. In Mar 2022, the payout ratio was 18%, showing a more conservative approach in that year. In Mar 2021, no dividends were paid (0% DPR), indicating earnings retention. The highest DPR was in Mar 2020, at 61.88%, before fluctuations in later years. While Laurus Laboratories DPR has seen a steady increase from 7.84% in Mar 2021 to 38.52% in Mar 2024. The most significant jump was from 14.13% (Mar 2023) to 38.52% (Mar 2024), reflecting a higher distribution of earnings. In Mar 2020, the DPR was 11.98%, showing a relatively lower but stable dividend distribution trend.

VI.CONCLUSION OF THE STUDY

The financial analysis of Divis Laboratories and Laurus Laboratories reveals distinct trends in liquidity, solvency, turnover, and profitability ratios. Divis Laboratories demonstrates a strong liquidity position with high current and quick ratios, though this may indicate underutilized assets. In contrast, Laurus Laboratories operates with tighter liquidity constraints, relying more on inventory sales to meet short-term obligations.

Regarding solvency, Divis Laboratories follows a conservative financial strategy with zero debt, while Laurus Laboratories maintains a moderate and fluctuating debt-to-equity ratio, reflecting financial leverage without excessive risk. Turnover ratios indicate declining efficiency for both companies, with Laurus Laboratories showing a relatively better asset and inventory turnover.

Profitability analysis highlights a downward trend in return on assets and return on capital employed for both companies, with Laurus experiencing more volatility. Divis Laboratories, while facing declining earnings per share, maintains stronger per-share profitability than Laurus, whose sharp EPS decline signals deeper financial strain. Dividend analysis shows Divis Laboratories sustaining consistent payouts, whereas Laurus Laboratories faces a downward trend in dividends per share despite an increasing payout ratio.

Overall, while both companies encounter financial challenges, Divis Laboratories appears more stable, whereas Laurus Laboratories faces greater financial risks and volatility, necessitating strategic intervention to improve financial performance.

VII.RECOMMENDATIONS OF THE STUDY

Divis Laboratories should focus on optimizing asset utilization by channeling excess liquidity into high-yield short-term investments or strategic business expansions to enhance returns. In contrast, Laurus Laboratories can improve liquidity by maintaining a stronger quick ratio through efficient cash flow management and reduced dependence on inventory sales for meeting short-term obligations. Regarding solvency and capital structure, Divis Laboratories' zero-debt approach provides financial stability, but selectively leveraging low-cost debt for growth could improve returns with manageable risk. Laurus Laboratories, on the other hand, should aim for a balanced debt-to-equity ratio by lowering financial leverage and considering alternative financing methods, such as equity infusion or long-term debt restructuring, to mitigate financial risk.

Both companies can boost turnover efficiency by enhancing operational processes, optimizing resource use, and focusing on revenue-generating activities. Specifically, Laurus Laboratories should implement strategies to increase inventory turnover through better demand forecasting and lean inventory practices to reduce stock buildup and improve cash flow. To enhance profitability, both companies need to tackle declining ROA and ROCE by expanding revenue sources, managing costs effectively, and improving asset utilization. Laurus Laboratories, in particular, should adopt cost-control initiatives and tap into new markets or high-margin products to stabilize profitability and reduce financial volatility.

In terms of earnings and dividends, Divis Laboratories should maintain its dividend policy while reinvesting retained earnings into long-term growth opportunities to ensure sustained profitability. Laurus Laboratories must counter its declining EPS by improving net profits through cost savings, revenue growth, and operational improvements. It should also revisit its dividend payout strategy to balance shareholder returns with financial sustainability. For strategic growth and market positioning, both companies should pursue product innovation, geographical expansion, and strategic alliances to strengthen their market position and drive revenue. Laurus Laboratories should also bolster its resilience by diversifying its product range and investing in R&D to reduce financial fluctuations and promote long-term growth.



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