A STUDY ON "COMMON SIZE FINANCIAL ANALYSIS" DR REDDY'S PVT LTD

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Abstract

Financial statements and reports are prepared from the output of the accounting function produced by the accounting and then communicated to the financial analysts as the users of the financial statements. The function of the financial analyst begins in terms of the termination of the accountant's post to complete a substantial financial function of the entity's functions related to the accounting function and not separate from it. The function of the financial analyst is based on the analysis of the financial statements, which is one of the main tools used in the financial and economic decision-making by the various parties related to the entity such as management, employees, investors, shareholders, lenders, customers, the government and the public in general. The analysis of the financial statements includes a set of basic and useful topics that the student can understand. The most prominent of these topics are the theoretical framework of financial analysis, the study of financial statements, the statement of funds flows, the cash flow statement and financial analysis by using financial ratios and prediction financial failures of companies and banks. This book was prepared in a simplified methodology for the student and the reader to ensure the translation of terms and titles and some important texts into Arabic, as well as that the topics of the book were based on syllabus approved by the Sectoral Committee of the Faculty of Management and Economics in the Ministry of Higher Education and Scientific Research. We hope that the modest scientific effort in this book will ensure the acceptance and satisfaction of students and readers to take advantage of practical and professional life.

Key Words: *Financial accounting, Accounting functions, statement of funds flow, shareholders, lenders***.**

INTRODUCTION: -

Organization's spending limit, which shows all things as rates of a commonplace base figure. this sort of money related explanation considers clear examination between organizations or between times of an association. The qualities on the regular size explanation are communicated as rates of a freebee segment like income. While most firms don't report their announcements in like manner size, it's useful to figure if you'd wish to look into at least two organizations of contrasting size against one another.

Designing fiscal reports during this way lessen the predisposition which can happen when examining organizations of varying sizes. It likewise takes into account the examination of an association over different periods, uncovering, for instance, what level of deals is the expense of items sold and along these lines the way that worth has changed after some time.

Kinds of Common Size Financial Statement:

(1)Common Size record
(2) Common Size Income Statement:
Basic Size Income Statement:

A pay explanation during which each record is communicated as a level of the cost of deals. This sort of money related explanation is regularly used to leave simple investigation between organizations or between times of an association.

The budgetary investigation fills the following needs:

1. Estimating the gainfulness
The fundamental target of a business is to win an agreeable profit for the assets put resources into it. Money related investigation helps in learning whether sufficient benefits are being earned on the capital contributed inside the business or not. It additionally helps in realizing the ability to deliver the intrigue and profit.
Showing the example of Achievements
Spending reports of the previous years are much of the time took a gander at and right now design as for various expenses, purchases, bargains, net advantages and net, etc. are routinely discovered. Estimation of points of interest and liabilities are normally taken a gander at, and in this manner, the more broadened term prospects of the business are oftentimes envisioned. Assessing the advancement capacity of the business. The example and distinctive assessment of the business give satisfactory information showing the augmentation capacity of the business.

2. Ordinary size situation as for various firms
The inspiration driving cash related explanations assessment is to help the organization with making an ordinary size examination of the profitability of various firms busy with near associations. Such assessment moreover urges the organization to review the circumstance of their firm in respect of arrangements, costs, productivity and utilizing capital, etc.

3. Assess all-around cash related quality
The explanation behind the cash related assessment is to study the budgetary nature of the business. The examination similarly helps in taking decisions, whether or not funds required for the obtainment of the latest machines and equipment are given from inside wellsprings of the business or not assuming to be sure, what sum? What's more, moreover, to assess what degree saves are gotten from outside sources.

3. Study dissolvability of the firm
The different contraptions of assessment uncover to us whether the firm has sufficient resources to satisfy its present minute and long stretch liabilities or not.

OBJECTIVES OF STUDY
1 To read the spending limit for a long time.
2 To look at the financial limit with the help of a similar report.
3 To recognize the monetary quality and shortcoming of the corporate.
4 To contemplate the general monetary situation of the corporate.
HYPOTHESIS
Invalid speculation:
1 H0= there'll be no noteworthy effect of the money related articulation on Dr prepared research centers.
2 H1=There will be noteworthiness.

RESEARCH DESIGN

This is logical gratitude to taking care of the exploration issue and it's a critical segment for the examination without which looks into probably won't be prepared to get the configuration. a pursuit configuration is the course of action of conditions for assortment and examination of information during a director that intends to blend for assortment and investigation of information pertinent to the exploration reason with the economy in the system.

DATA ANALYSIS AND INTERPRETATIONS

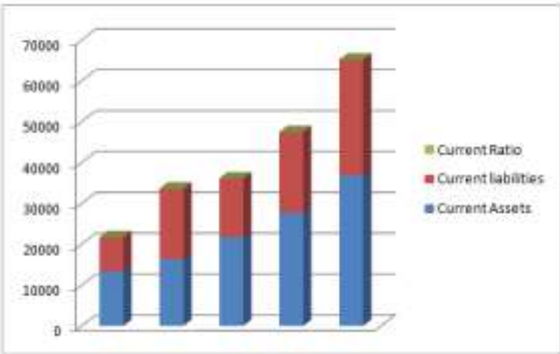
DATA ANALYSIS

In this chapter, an attempt has been made to analyses how efficiently the analysis of monetary statement is managed in Dread's laboratories. Financial tools just like the agenda of changes in ratio analysis, technique of method of least squares, comparative statements are used for analysis. The budget involves recording classifying and abbreviation of various business transactions. it's prepared for presenting a periodical review or report of the progress made by the priority and deals with the state of the investment, within the business and 'result achieved' during the accounting period. budget, profits declaration and position statement are the results of the secretarial process.
Ratio analysis could also be a way of learn and interpretation of monetary statements. it's used as a tool to analyses and interpret the financial health of a firm. Analysis of a financial plan with the help of ratio helps to arrangements choose control.
1) Current Ratio
this ratio could even be distinct due to the relations between present assets and current liabilities. it is the foremost common ratio for measure liquidity. it's calculated by dividing current assets by current liabilities. Current possessions are those, the number of which can be realized within the quantity of 1 year.

Current liability is those amounts which are payable within a period of 1 year. A current ratio of 2:1 is taken under consideration ideal.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

Year	Current Assets	Current liabilities	Current Ratio
2014-2015	14343	8446	1.57
2015-2016	17331	18321	1.58
2016-2017	21863	15420	1.46
2017-2018	27705	19821	1.39
2018-2019	36901	28333	1.30



Interpretation

From the above analysis Current ratio throughout the year 14-15 is that the 1.57. within subsequent year 2015-16 it had been maximum 1.58 and within the year 2016- 17 it had been 1.46. within the year 2017-18 this ratio is 1.39 and within the last year 2018--19 this ratio decreased to 1.30.

the right value of this ratio 2:1, but during the quantity of study, this ratio is lesser than the standard. This shows this ratio to shows a does downward which indicate the incompetence of the corporation to satisfy its current obligations.

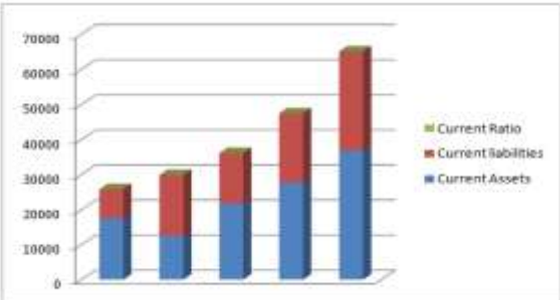
2) Liquid Ratio: -

The term 'Liquidity' refers to the facility of a firm to pay its short – term obligations as and once they become due. The term quick assets or liquid assets refers to current assets, which can be converted into cash immediately. It comprises all present assets except stock and prepaid operating cost. it's determined by in-between quick assets by quick liability.

$$\text{water Ratio} = \frac{\text{fluid Assets}}{\text{Liquid Liabilities}}$$

(incrores)

Year	Current Assets	Current liabilities	Current Ratio
2014-2015	18427	8446	1.23
2015-2016	12587	18321	1.21
2016-2017	21821	15420	1.45
2017-2018	27648	19821	1.39
2018-2019	36823	28333	1.29



Interpretation

From the above analysis, fluid ratio during the year 2016-2017 it attains the greatest value of 5.20. within the above year, it had been slightly reduced to 2014 – 15 to 1.23.

within subsequent year, 2015-16 it further decreased to 1.21 and within subsequent year 2017-18 1.39. within the last year decreased from 2018—2019 to 1.29.

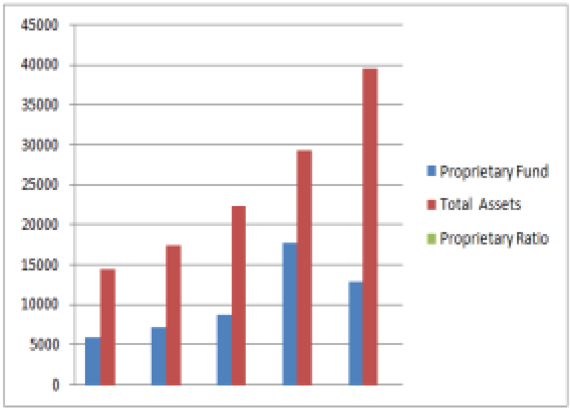
During the quantity of study, the cost of the liquid ratio is over the right value which indicates the competence of the company to satisfy its immediate requirements. the overall tendency of liquid relation shows up and downward trend.

3) Proprietary Ratio:

Proprietary ratio relates to the proprietor's funds to total assets. It revels the owners' payment to the entire value of possessions. This ratio shows the long – time solvency of the trade. it's intended by dividing proprietor's funds by the entire tangible assets.

$$\text{Proprietary Ratio} = \frac{\text{Proprietor's Funds}}{\text{Total Tangible Assets}}$$

Year	Proprietary Fund	Total Assets	Proprietary Ratio
2014-2015	6027	15483	0.41
2015-2016	7301	18498	0.41
2016-2017	8788	22354	0.39
2017-2018	18774	29344	0.36
2018-2019	12939	39528	0.32



understanding

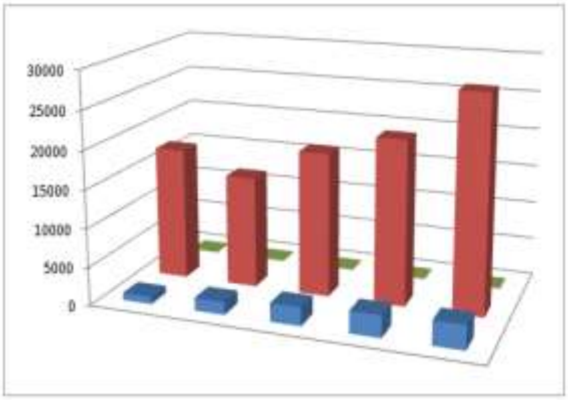
From the above analysis Proprietary ratio through the year 2014-15 and 2015-16, it attains the utmost value of 0.41. within the year2014-15 the proprietary ratio was slightly reduced to 0.39. within subsequent year, 2017-18 It further reduced to 0.36. throughout the year 2018-19, it further decreased to 0.32.

4) net Ratio

net Ratio establish a association between net (after taxes) and sales. it's determined by dividing internet takings after tax to internet sales for the quantity and events the profit per rupees of sales.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 180$$

Year	Net Profit	Sales	Net Profit Ratio
2014-2015	953	18336	9.2%
2015-2016	1779	15,525	19.6%
2016-2017	2416	19739	12.9%
2017-2018	2859	21501	14.4%
2018-2019	3148	28033	19.20%



Interpretation

From the above analysis, it's found that internet profit has been fluctuating during the study period. within the year 2014-15, the web profit ratio was 9.2%. within the year 2015-16, it had been increased to 19.6%. within subsequent year 2016-17, it had been further increased by 12.9%. throughout the year 2017-18, there was a little increase to 14.4%. throughout the year 2018-19, internet profit ratio was 19.20%.

5) Stock Turnover Ratio:

This relation indicates whether the asset in inventory is professionally used or not. It explains whether an investment in inventory within proper limits or not. It also measures the efficiency of the firm's sales efforts. The ratio is calculated as follows.

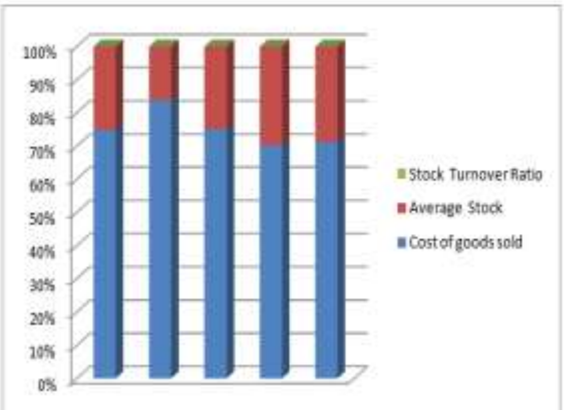
$$\text{Stock Turnover} = \frac{\text{price of goods sold}}{\text{Average Stock}}$$

$$\text{price of goods sold} = \text{Sales- Gross Profit}$$

Average stock = Opening stock + Closing stock

2

Year	Cost of goods sold	Average Stock	Stock Turnover Ratio
2014-2015	8673	2919	2.97
2015-2016	19902	3653	3.25
2016-2017	15960	4971	3.00
2017-2018	17936	7177	2.38
2018-2019	23163	9350	2.47



Interpretation

From the above analysis, it's found that the store income ratio has been fluctuating during the study period. within the year 2014-15, it was 2.97, It increase during the day 2015-16 was slight to three .25. within the year 2016-17, it was 3.00 and reduces to 2.38 within the year 2017-18 and through the year 2018-2019, it had been increased to 2.47.

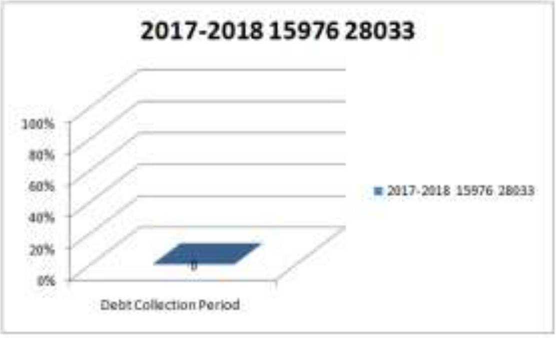
6) the typical debt collection period

the typical number of days that elapsed flanked by the receipt of the invoice by clientele and therefore the actual payment of the invoice. When measured against the credit terms obtain from suppliers, the typical the accounting period shows the distance end to end of your time during which the firm is financing the account receivable either with its funds or borrowed funds. The means of communication could also be calculated as follows:

Average debt collection period = Debtors B/R

Net Credit sales

Year	Debtors	Credit Sales	Debt Collection Period
2014-2015	5972	18336	218 days
2015-2016	7179	15525	190 days
2016-2017	9695	19739	198 days
2017-2018	19975	21501	204 days
2018-2019	16976	28033	216 days



Interpretation

From the above analysis Debt compilation era ratio within the year 14-15 was 218 days. In next year 15-16 it further reduced to 190 days. within subsequent year 16-17 it had been 198 days. within subsequent year 2017-18 it had been 204 days. During the years 2018-19 it had been 216 days.

From the above it's inferred that the debt collection period shows a fluting trend, which indicates quick recovery of cash from debtors and indirectly shows that the organization in highly efficient in collecting debts promptly.

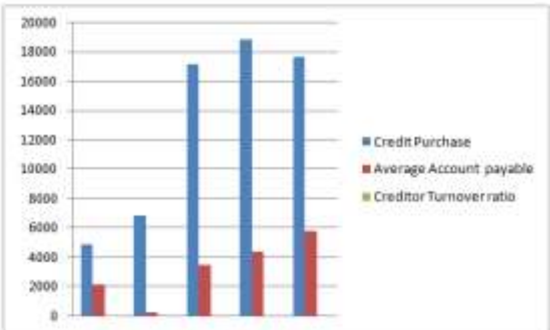
7) Creditors turnover ratio:

It indicates the quantity of times on the normal that the creditors turnover annually. Creditors income ratio indicate the quantity of things the accounts payable rotate during a year. It signifies credit period enjoy by the hard in paying its creditors. comprise traded creditors and bills payable.

$$\text{Creditors Turnover Ratio} = \frac{\text{praise Purchases}}{\text{Average account payable}}$$

(incrores)

Year	Credit Purchase	Average Account payable	Creditor Turnover ratio
2014-2015	4892	2180	2.32
2015-2016	6866	284	24.18
2016-2017	18192	3538	2.87
2017-2018	19821	4424	2.67
2018-2019	18620	5852	3.0



INTERPRETATION: -

From the above study creditor Turnover ratio during the year 14-15 was 2.32. within the year 15-16, it had been increased to 24.18. within the year 16-17 creditors turnover ratio slightly reduced to 2.87. within the year 15-16, it had been reduced to 2.67. During the year 2018-2019, it had been increased to 3 .0

From the above, it's inferred so as to the creditor's income ratio shows an upward trend which indicates that the corporation is extremely efficient in making. Speedy settlements of debts to its creditors.

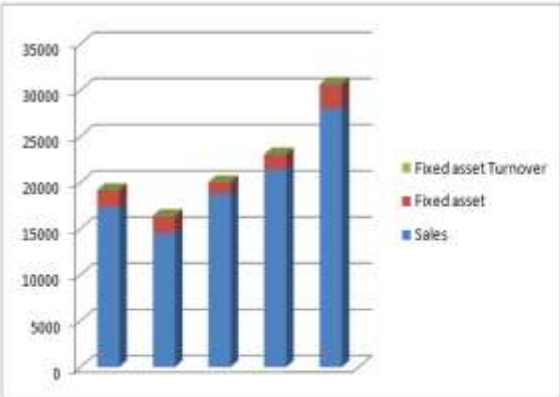
8) Fixed assets income Ratio:

The ratio indicates that degree to which the investments in Fixed assets contributes towards sales. If compared with a previous year, it indicates whether the investment in set assets has been judicious or not. The ratio is calculating as follows.

$$\text{Fixed assets turnover ratio} = \frac{\text{Sales}}{\text{Fixed assets}}$$

Fixed asset Turnover ratio (in crores)

Year	Sales	Fixed asset	Fixed asset Turnover
2014-2015	18336	1940	9.14
2015-2016	15525	1967	12.44
2016-2017	19739	1291	15.51
2017-2018	21501	1739	14.05
2018-2019	28033	2627	18.67



Interpretation

From the above investigation, fixed asset income ratio during the year 2014-15 was 9.14. it's found that the fixed asset turnover ratio has been fluctuating during the study period. within the year 15-16, it was 12.44. within the year 16-17, it was 15.51. During the year 2015-16, the set asset income ratio was 14.05. This, the last year 2018-2019 it had been decreased to 18.67.

9) Capital Turnover Radio:

Managerial efficiency is additionally calculated by establishing the connection between the value of sales or sale with the quantity of assets invested within the commerce. Capital income Ratio is calculated with the assistance of the subsequent formula.

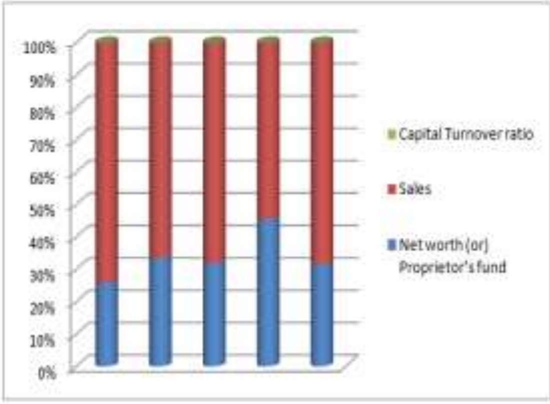
Sales

Capital turnover ratio = ------------------------------------

Net worth (Or) Proprietor's fund

(incrores)

Year	Net worth (or) Proprietor's fund	Sales	Capital Turnover ratio
2014-2015	6027	18336	1.71
2015-2016	7302	15525	1.98
2016-2017	8789	19739	2.14
2017-2018	18775	21501	1.98
2018-2019	12939	28033	2.17



analysis

From the above analysis, it's inferred from the above table the capital turnover ratio for the year 14-15 was 1.71. within the year 15-16, it had been 1.98. whereas inside the year was 2016-17 it had been increased to 2.14. within the year 2017-18, it had been slightly decreased to 1.98. But throughout the year 16-17, it had been increased further to 2.17.

10) Return on total assets:

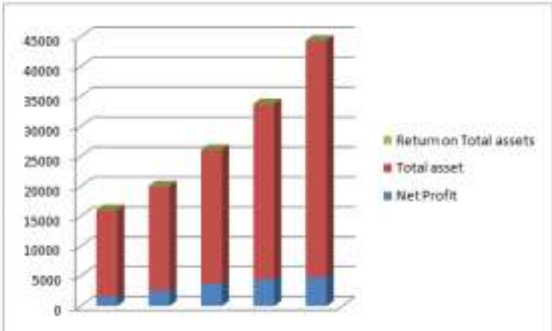
success is usually measured in terms of the connection between net and total assets. It measures the profitability of the asset. the overall profitability is usually known by applying this ratio.

Net Profit

Return on total Assets = ------------------------ X180

Table assets

Year	Net Profit	Total asset	Return on Total assets
2014-2015	1682	15482	18.92
2015-2016	2564	18497	15.65
2016-2017	3736	22354	17.71
2017-2018	4430	29344	16.17
2018-2019	4849	39528	12.26



Interpretation

From, the above analysis it had been found that the return on the whole asset has been fluctuating during the study period. within the year 2014-15, it was 18.92. within the year 2015-16, it had been increased to fifteen .65. within the year 2016-17 was increased further increased to 17.71 and within the year 17-18, it had been reduced to 16.17. During the year 2018-19, it had been slightly decreased to 12.26.

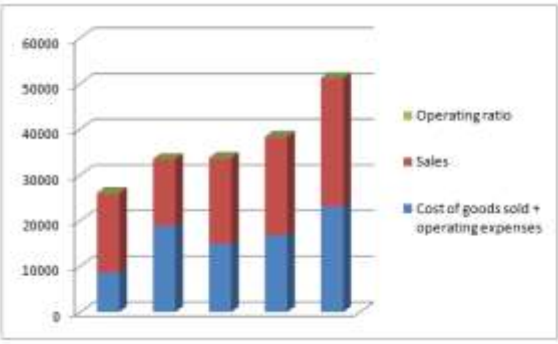
11) Operating Ratio

in service ratio is an indicator of the proportion that the worth of sales bears to sales. 'Cost of sales' includes the direct cost of products sold also as other operating expenses. it is a crucial ratio that's used to discuss the general productivity of the priority. it's intended by dividing the whole operating cost by income.

$$\text{Operating ratio} = \frac{\text{Cost of goods sold} + \text{Net operating expenses}}{\text{Sales}} \times 180$$

Cost of goods sold = sales = gross profit.

	sold + operating expenses		
2014-2015	8673	18336	83.9
2015-2016	19902	15525	81.9
2016-2017	15960	19739	79.8
2017-2018	17936	21501	79.1
2018-2019	23163	28033	82.5



Interpretation

From the above study reveals that the in service ratio for the year 14-15 was 83.9. But within the year 15-16, it had been slightly reduced to 81.9 and within the year 16-17, it had been further reduced to 79.8. within the year 17-18, it had been 79.1. through the year last year 2018-2019, it had been increased to 82.5.

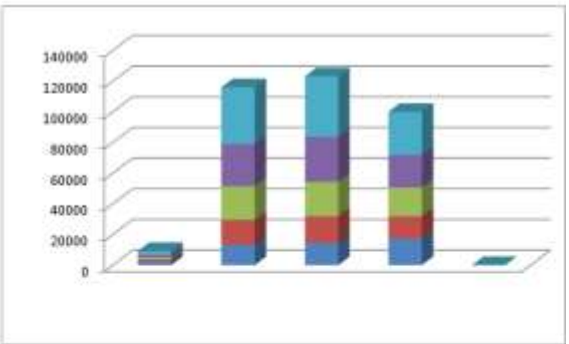
12) Assets Turnover Ratio

This ratio is additionally called as Investments Turnover Ratio". It expresses the link between the worth of products sold / profits and assets/ investments of a firm. The figure of income is typically used where in order regarding the value of products sold isn't available. There are many variants of this ratio so as there is difference within the concept of assets working.

$$\text{Assets Turnover Ratio} = \frac{\text{Total Assets}}{\text{Sales}}$$

(incrores)

Year	Fixed assets	Current assets	Total assets	Sales	Assets Turnover ratio
2014-2015	1939	14343	15481	18336	1.4
2015-2016	1966	17331	18496	15525	1.2
2016-2017	1291	21863	22353	19739	1.1
2017-2018	1739	27705	29343	21501	1.3
2018-2019	2627	36901	39528	28033	1.4



Interpretation

From the above analysis, it's understood that the Asset turnover ratio for 2014-15 was 1.4. within the year 2015-16, it had been reduced to 1.2. within the year 2016-17, it had been further reduced to 1.1. inside the day 2017-2018, there is a small increase to 1.3. while within the year 2018-2019 it had been slightly increased to 1.4.

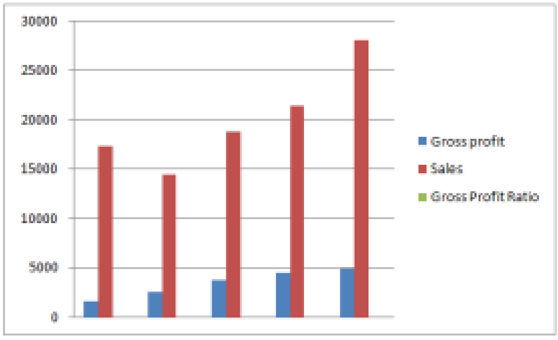
13) gross profit margin Ratio:

The gross profit edge ratio measures the link of gross profit to income and is usually represent as a proportion. This ratio plays an important role in two management areas. within the world of financial organization, the ratio may be a valuable indicator of the firm's ability to utilize effectively outside source of fund. Secondly, this ratio is also insignificant tool in shipping the price policy of the firm. This ratio is intended by in-between gross profit margin by income.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sale}} \times 180$$

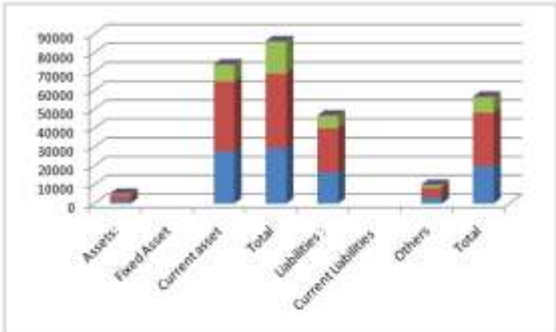
(incrores)

Year	Gross profit	Sales	Gross Profit Ratio
2014-2015	1763	18336	17.0%
2015-2016	2623	15525	19.0%
2016-2017	3779	19739	20.1 %
2017-2018	4465	21501	20.8 %
2018-2019	4880	28033	18.4 %



From the above investigation shows that the revolting profit Ratio all through the year 2014-15 was 17.0%. In the year 2015-16 it was augmented to 19.0%. In the next year 2016-17 greater than before to 20.1 %. In the year 2017-18 there was slight increase to 20.8 %. In this last year be 2018-19 the gross profit ratio was 18.4 %.

Particulars	2017-18	2018-19	proportion of 2017-18	percentage of 2018-19
Assets: set Asset	1739	2627	16.8740656	15.0468215
present asset	27705	36901	1.059159	1.07119048
Total	29344	39528	100	100
liability: Current Liabilities	17576	23357	1.1276741	40.90
Others	3244	4976	3.98311	53.39
Total	19820	28333	100	100

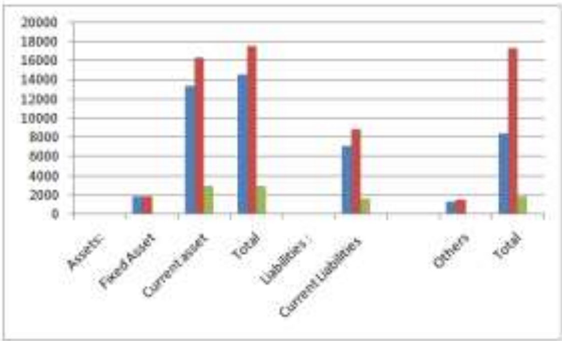


From the above analysis 2017-2018 to 2018-2019. The above table clearly reveals that the was marvelous increase within the fixed asset to 16.874. within an equivalent year present asset was increased by 1.0711and this liability was by 40.90.

Common size statement analysis for the year 2015-16 to 2016-17(in crores)

ordinary size declaration investigation for the year 2017-2018 to 2018-2019

Particulars	2015-16	2016-17	Percentage change of 2015-16	% of change of 2016-17
Assets: Fixed Asset	1967	1291	124	18.62
Current asset	1733	21863	4732	28.97
Total	18498	22354	100	100
Liabilities: Current Liabilities	8816	19898	3170	35.16
Others	1612	2522	1818	66.79
Total	18320	15420	100	100

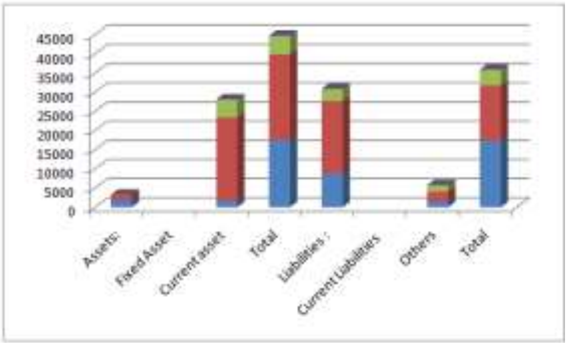


Interpretation

From thisstudywasordinary size declaration analysis for the year has been variable during the study era. In the year 2015-16 set assets was greater than before by 18.62. Current assets were 28.97. and the here liability was 35.16.

Common size statement analysis for the year 2014-15 to 2015-16(in crores)

Particulars	2014-15	2015-16	Percentage of 2014-15	Percentage of 2015-16
Assets: Fixed Asset	1940	1967	27	2.36
Current asset	14343	17331	2988	22.39
Total	15483	18498	100	100
Liabilities: Current Liabilities	7120	8816	1788	23.70
Others	1425	1612	197	15.19
Total	8445	18320	100	100

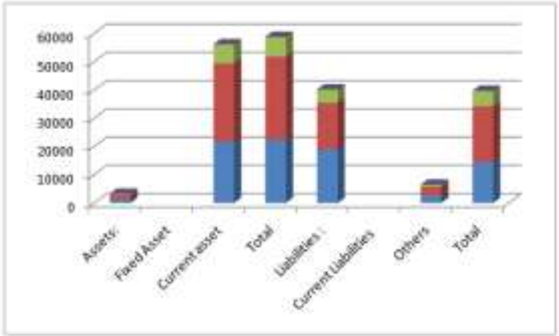


Interpretation

From the above analysis it is found that the ordinary size declaration study for the year has been variable during the learn period. In the year 2014-15 to 2015-16 have fixed assets was 2.36 & current asset was increased to 22.39. and in the year 2014-15 to 2015-16 present liabilities greater than before 23.70 and other liability it was 15.19

Common size statement analysis for the year 2016-17 to 2017-18(in crores)

Particulars	2016-17	2017-18	Percentage change of 2016-17	Percentage change of 2017-18
Assets: Fixed Asset	1291	1739	348	26.95
Current asset	21863	27705	6642	31.53
Total	22354	29344	100	100
Liabilities: Current Liabilities	19898	17576	4678	39.31
Others	2522	3244	722	28.62
Total	15420	19820	100	100



INTERPRETATION: -

From the above study of ordinary size report study from the year 2016-17 to 2017-18. The fixed assets were better by 26.95 while the present assets were increased by 31.53 and present liability by 39.3.

FINDINGS, SUGGESTIONS &CONCLUSIONS

FINDINGS

The present ratio shows a documented trend indicating the company unable to fulfill current obligations furthers this also indicate that the liquidity position of the company may be a smaller amount satisfactory.

in total the five years this ratio may be a lesser amount than the ideals of Creditors term over ratio shows an upward trend and indicates better credit management.

In all the five years the liquid ratio is above the right relation of ordinary size financial statements shoes the firm allocates half the whole current assets to a debtor.

The firm's debt collection period has quite 190days it increased the debt collection period year by year. It shows firms liberal debt collection policy.

1. Fixed possessions income was 19% within the year 2018-19.
2. The assets turnover ratio was 2.17 within the year 2018-19.
3. Return on total assets that decreased from 16.17 within the year 2017-2018 to 12.26 in 2018-2019.
4. Operating ratio has increased from 79.1 within the year 15-16 to 82.5 within the year 2018-19
5. Asset income ratio was 1.4 within the year 2018-19.
6. gross profit edge ratio has come down from 21% within the year 2017-2018 to 18% in 2018-19.
7. Sales show the increasing trend at the speed once a year.

SUGGESTIONS

1. Company may investigate increasing various kinds of currents assets and decreasing current liability to efficiently manage capital requirement.
2. Company may maintain gross profit margin in and around 98% as seen in 2015-16 within the approaching financial years.
3. the company possesses to seek out new joint ventures and assignments.
4. to satisfy the short-term requirements the company possesses to boost short term also as future loans.
5. to draw new clientele the company possesses to adopt new events and new technology.

CONCLUSION

Albeit the corporation is utilizing its funds there's very need that the corporation be supposed to improve its liquidity position, debtor's compilation period. Utilization of proper organization of its current assets and present liabilities.

The outside debt of business decreased slowly. this is often often mainly because of the repayment of a figure of the term loans. one more cause for the reduce in external debt is because of an increase in reserves and surplus.
The year was 425.67 Crores this suggests there's likely enlargement of the company within the market. During 2014-2019 Dr. Reddy's Laboratories has undertaken research program, modernization and technology up-gradation, for the above, said expansion program it's made use of surplus funds only and didn't choose outsider's debts, which is single of the good long-term financial policy of DR. REDDY'S LABORATORIES.

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