

An In-Depth Financial Performance Analysis and Cash Management Strategy of Solara Active Pharma Sciences Limited: A Case Study (2020-2023)

Mr. S. Vasanthan ,Ms. P.Reena

1Assistant Professor, 2Post Graduate Student, Department of Management Studies, Manakula Vinayagar Institute of Technology, Kalitheerthalkuppam, Puducherry,

India Corresponding Author: reenapachaiyappan2003@gmail.com

Abstract

This study presents an in-depth financial analysis of Solara Active Pharma Sciences Limited (SAPS) over the period from 2020 to 2023, with a focus on the company's financial performance and cash management strategies. The research primarily employs ratio analysis to evaluate profitability, liquidity, and operational efficiency. Additionally, the study applies the Baumol Model for optimal cash management, addressing the firm's cash conversion cycle, opportunity costs, and transaction costs. The results reveal critical insights into SAPS's fiscal health, suggesting that while the company demonstrates robust profitability, it can further optimize its liquidity management. Recommendations include revising cash management practices and employing more effective marketable securities strategies to enhance liquidity.

Keywords: Financial Analysis, Solara Active Pharma Sciences, Ratio Analysis, Baumol Model, Cash Management, Liquidity, Profitability.

Introduction

Financial performance analysis is crucial for evaluating a company's fiscal health and guiding investment decisions. Solara Active Pharma Sciences Limited (SAPS), a leading Indian pharmaceutical company, is renowned for manufacturing active pharmaceutical ingredients (APIs). This study assesses SAPS's financial standing through key financial ratios, offering a comprehensive overview of its performance from 2020 to 2023. A significant focus is placed on cash management, as effective liquidity management is vital for operational success. By applying the Baumol Model, this research evaluates SAPS's ability to manage cash flows while balancing transaction costs and opportunity costs.

Objectives

To Evaluate the financial performance of the company.

❖ To assess the liquidity and profitability. ❖ To Examine the relationship between current assets and current liabilities.

❖ To know the financial ratio analysis and Boumal's model.

Need the study

To analysis Financial performances is a powerful mechanism which helps in ascertaining the strengths and weakness in the operation and financial position of an enterprise.

To know the profitability , liquidity and solvency position of the company.

To determine the financial performance analysis of working capital.

Scope

The study covers the financial performances of the company and activity. This scope of the study is

limited to collecting financial data published in the annual reports.

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Review of literature

Sarkar & Rakshit, (2021)

Examines the elements that influence commercial banks' performance in India from 2000 to 2017, with a particular emphasis on macroeconomic concerns. We picked a panel of public and private sector commercial banks in our nation based on their return on assets (ROA), return on equity (ROE), and net interest margin (NIM) as performance indicators. The first difference generalised method of moments (GMM) method was used to examine the impact of macroeconomic factors on the performance of commercial banks. GDP, inflation, and lending interest rate were used as the primary explanatory variables, along with some bank-specific and macroeconomic control variables. External factors have a considerable effect on commercial banks' performance, and these conclusions hold true whether all control variables are included sequentially. This study is critical for bankers, planners, and policymakers in developing suitable commercial bank policy choices.

Dr.C.Balakrishnan (2016)

Observed that financial performance of any organization is influenced by several factors like
DATA ANALYSIS AND DATA INTERPRETAION

capital structure, cost, revenue and the consequential profit margin. The study can be analyzed with many aspects like financial facts, financial ratios, financial health, financial strength and utilization of assets, etc. The study revealed that financial performance can be influenced by the operational and financial efficiency of the steel industry, which are related to cost and the revenue aspects. The study analyzed the performance of steel industry in India on the parameters such as profitability, utilization of assets, growth of performance, financial strength and capital structure.

Methodology

This study relies on secondary data from SAPS's annual reports from 2020 to 2023. The analysis focuses on key financial metrics, including profitability, liquidity, and efficiency ratios. Additionally, the Baumol Model is employed to determine the optimal cash level that minimizes the combined costs of holding cash and transaction costs.

Data collection

❖ PRIMARY SOURCES

❖ SECONDARY SOURCES

Tools used in analysis

❖ RATIO ANALYSIS

❖ BAUMOL MODEL

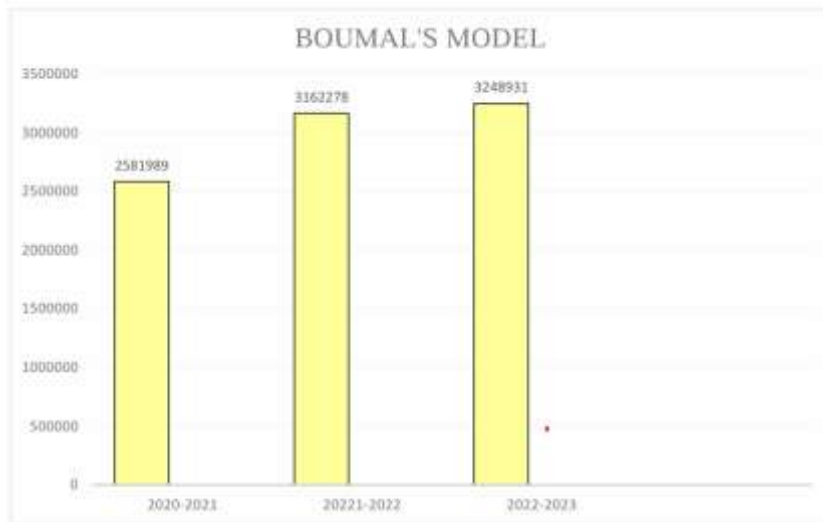


Figure 1 : Boumal's model chart

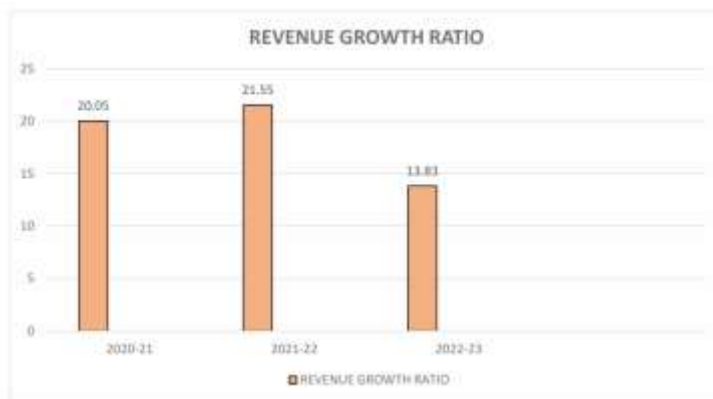


Figure 2 : Revenue Growth Ratio chart



Figure 3 : Return on Equity Ration chart

Key Findings:

- Baumol model :**

2020-2021: The company's annual cash requirement is ₹40 crores, which can be met by converting marketable securities into cash. Each conversion

costs ₹25,81,989, and up to 15.5 conversions can be carried out during the year.

2021-2022: The annual cash requirement rises to ₹75 crores. The cost of converting securities to cash

is ₹31,62,278 per transaction, with up to 24 conversions possible throughout the year.

2022- 2023 :The annual cash requirement is 95 crores, and this can be facilitated by converting marketable securities into cash at a rate of Rs.3248931 per transaction. It is observed that the conversion of marketable securities can be executed up to 29 times throughout the year..

It has been found that in the Return on Equity ratio in the year 2020-21 is higher 43.32% and the 2022-23 is lower 40.73%

It has been found that in the Revenue Growth ratio in the year 2021-22 is higher 21.55% and the 2022-23 is lower 13.83%.

Suggestion

Review and Reduce Transaction Costs:

Transaction costs have risen from ₹25,81,989 in 2020-2021 to ₹31,62,278 in 2021-2022 and ₹32,48,931 in 2022-2023. Explore ways to minimize these costs, such as negotiating better terms or finding alternative methods for converting securities to cash.

Improve Cash Flow Management: With increasing cash demands each year, adopt a flexible and proactive approach to liquidity planning. Enhancing forecasting methods for cash requirements can help avoid situations of overestimation or underestimation.

The return on equity ratio indicates that the company should explore methods to enhance its short-term liquidity position, focusing on optimizing working capital management.

The Revenue growth ratio reflects the percentage that evaluates how effectively the company is improving its operational performance.

Conclusion

This study demonstrates that Solara Active Pharma Sciences Limited has shown solid financial

performance from 2020 to 2023. However, to improve liquidity, the company should optimize its cash management strategies using the Baumol Model and reassess investments in marketable securities. Financial ratio analysis provides valuable insights into the company's fiscal health, suggesting pathways for strengthening its financial position and ensuring sustainable growth.

Recommendations:

1. Revise cash management strategies based on the Baumol Model to optimize liquidity.
2. Increase investments in marketable securities to balance liquidity and profitability.
3. Improve inventory management to enhance operational efficiency.

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