

Integrated Analysis of Profitability Leverage & Working Capital Efficiency of Solra Active Pharma Sciences Limited

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Abstract

This study examines the profitability, leverage, and working capital efficiency of Solara Active Pharma Sciences Limited over the five-year period from 2020–21 to 2024–25. The research evaluates how the company transitioned from exceptional pandemic-era profitability to post-pandemic financial stress and gradual operational recovery. Using audited standalone financial statements, the study applies profitability ratio analysis, leverage analysis, working capital efficiency ratios, DuPont decomposition, common-size analysis, and trend analysis. The findings reveal that Solara's profitability sharply deteriorated after the COVID-19 demand surge, resulting in four consecutive years of losses and significant equity erosion. The debt-equity ratio increased from 0.32x to 1.07x, while liquidity ratios weakened substantially. However, the 2024–25 financial year showed early signs of recovery through improved gross profit margin, reduced working capital cycle, lower debt burden, and near-breakeven profitability. The study concludes that Solara's operational efficiency remained relatively stable throughout the crisis, while the primary challenges were related to profitability compression and leverage pressure. Strategic recommendations are provided for profitability restoration, debt reduction, liquidity strengthening, and working capital optimisation.

Keywords:

- Profitability
- Financial Leverage
- Working Capital Management
- DuPont Analysis
- Pharmaceutical Industry
- Solara Active Pharma Sciences

Introduction

Profitability, leverage, and working capital efficiency are among the most important indicators of corporate financial health. Profitability reflects a company's ability to generate earnings, leverage indicates the extent of debt financing and associated financial risk, and working capital efficiency measures the effectiveness of managing short-term assets and liabilities.

The Indian pharmaceutical and active pharmaceutical ingredient (API) industry has experienced significant volatility due to changing global demand, raw material price fluctuations, and post-pandemic market correction. Solara Active Pharma Sciences Limited, a Chennai-based API manufacturer listed on the NSE and BSE, provides a suitable case for integrated financial analysis because the company experienced both extraordinary profitability during the COVID-19 period and severe financial stress afterward.

The study aims to analyse the interrelationship among profitability, leverage, and working capital efficiency at Solara Active Pharma Sciences Limited during the period 2020–21 to 2024–25.

Objectives of the Study

1. To analyse the profitability performance of Solara Active Pharma Sciences Limited.
2. To evaluate the leverage position and financial risk of the company.
3. To assess working capital efficiency and liquidity management.
4. To examine the interrelationship among profitability, leverage, and operational efficiency using DuPont analysis.
5. To provide strategic recommendations for financial recovery and long-term sustainability.

Review of Literature

Previous studies highlight the importance of profitability, leverage, and working capital management in determining corporate financial performance.

Pandey (2021) emphasised that profitability ratios such as gross profit margin, EBITDA margin, ROE, and ROCE are essential indicators of operational and shareholder performance. Brigham and Ehrhardt (2017) argued that leverage can improve returns up to an optimal level but increases financial distress risk when debt becomes excessive.

Deloof (2013) found a negative relationship between the cash conversion cycle and profitability, indicating that efficient working capital management improves financial

performance. Shin and Soenen (2008) similarly concluded that reducing inventory and receivable days enhances operating profitability.

The DuPont framework has been widely recognised as an integrated approach linking profitability, efficiency, and leverage. Soliman (2008) observed that asset turnover improvements are more sustainable indicators of future profitability than temporary margin expansion.

Research specific to the Indian pharmaceutical sector indicates that API manufacturers face high working capital intensity, regulatory compliance costs, and cyclical profitability. Existing studies primarily focus on profitability or leverage individually, while integrated studies combining profitability, leverage, and working capital efficiency remain limited.

Research Methodology

The study adopts a descriptive and analytical research design. Secondary data were collected from the audited standalone annual reports of Solara Active Pharma Sciences Limited for the period 2020–21 to 2024–25.

Data Sources

Annual Reports of Solara Active Pharma Sciences Limited

NSE and BSE financial disclosures

Published academic literature and textbooks

Analytical Tools Used

Profitability Ratios

Gross Profit Margin (GPM)

EBITDA Margin

EBIT Margin

Net Profit Margin (NPM)

Return on Assets (ROA)

Return on Equity (ROE)

Return on Capital Employed (ROCE)

Leverage Ratios

Debt-to-Equity Ratio

Debt-to-Assets Ratio

Interest Coverage Ratio

Proprietary Ratio

Working Capital Ratios

Current Ratio

Quick Ratio

Inventory Turnover Ratio

Debtor Turnover Ratio

Creditor Turnover Ratio

Cash Conversion Cycle (CCC)

Integrative Tools

DuPont Decomposition

Common-size Analysis

Trend Analysis

Data Analysis and Interpretation

4.1 Profitability Analysis

Table 1 presents the major profitability ratios across the study period.

The company recorded peak profitability during 2020–21 due to extraordinary demand for ibuprofen and hydroxychloroquine APIs during the COVID-19 pandemic. Revenue reached ₹1,616.88 crore and PAT stood at ₹220.96 crore.

However, post-pandemic demand normalisation, API price correction, elevated raw material costs, and higher finance costs significantly weakened profitability. Gross profit margin declined to 37.54% in 2023–24, while the company recorded a net loss of ₹566.87 crore, including an exceptional impairment charge of ₹189.64 crore

The 2024–25 financial year indicated operational improvement, with GPM recovering to 51.21% and EBITDA margin improving to 16.59%, reflecting material cost normalisation and operational stabilisation.

4.2 Leverage Analysis

The debt-equity ratio increased significantly after 2020–21 due to debt-funded capacity expansion and declining equity caused by continuous losses. Total borrowings increased from ₹515.71 crore in 2020–21 to ₹999.38 crore in 2023–24.

Interest coverage became negative for four consecutive years, indicating that operating earnings were insufficient to cover finance costs. The increase in finance costs from ₹84.47 crore to ₹114.81 crore further intensified financial stress.

The moderate improvement in the debt-equity ratio during 2024–25 reflects partial debt reduction and early financial recovery.

4.3 Working Capital Efficiency Analysis

Working capital efficiency deteriorated sharply during the post-pandemic period. Inventory levels increased significantly during 2021–22 as the company accumulated stock in anticipation of sustained demand growth.

The current ratio declined below 1.0x in 2023–24, indicating severe liquidity stress. Cash balances also reduced drastically from ₹197.53 crore in 2020–21 to ₹8.32 crore in 2023–24.

A major positive development was the reduction of the cash conversion cycle from 194 days in 2021–22 to 33 days in 2024–25 through inventory rationalisation and improved working capital management.

4.4 DuPont Analysis

The DuPont framework revealed that Solara's asset turnover ratio remained relatively stable between 0.46x and 0.62x across the study period. This indicates that the operational capability of the business remained intact despite severe profitability deterioration.

The decline in ROE was primarily driven by falling net profit margins and increasing leverage rather than operational inefficiency. Thus, the company's financial crisis was mainly a profitability and capital structure issue rather than a collapse of operational effectiveness.

5. Findings

1. Solara experienced exceptional profitability during the COVID-19 period, followed by severe post-pandemic financial stress.
2. Gross profit margin declined sharply between 2020–21 and 2023–24 due to raw material inflation and API price correction.
3. The company reported four consecutive years of losses, resulting in significant equity erosion.

4. Debt levels increased substantially, leading to high financial leverage and weak interest coverage.
5. Liquidity weakened considerably, with the current ratio falling below 1.0x.
6. Inventory rationalisation and working capital improvements reduced the cash conversion cycle significantly by 2024–25.
7. DuPont analysis confirmed that operational efficiency remained stable despite profitability deterioration.
8. The 2024–25 financial year showed early signs of operational and financial recovery.

6. Suggestions

1. Continue raw material cost optimisation through long-term supplier agreements and backward integration.
2. Restore positive EBIT through revenue growth, expense control, and improved capacity utilisation.
3. Reduce debt aggressively to improve interest coverage and reduce financial risk.
4. Strengthen liquidity by maintaining higher cash reserves and improving current ratio levels.
5. Continue strict working capital monitoring to sustain a shorter cash conversion cycle.
6. Diversify the API product portfolio to reduce dependence on a few therapeutic categories.
7. Conduct periodic goodwill impairment testing to ensure realistic asset valuation.
8. Implement a board-governed financial recovery roadmap with measurable milestones.

7. Conclusion

The study concludes that Solara Active Pharma Sciences Limited underwent a dramatic transition from pandemic-driven profitability to prolonged financial stress during the post-pandemic period. Profitability weakened due to declining API demand, rising material costs, and increased finance costs arising from debt-funded expansion.

The company's leverage position deteriorated significantly, while liquidity and working capital efficiency also weakened during the stress period. However, DuPont analysis revealed that operational efficiency remained relatively stable, indicating that the company's manufacturing platform and core business model continued to function effectively.

The financial results of 2024–25 provide the first evidence of multi-dimensional recovery through improved gross margins, reduced leverage, lower working capital cycle, and near-breakeven profitability. Sustained profitability improvement, debt reduction, and disciplined working capital management will be essential for long-term financial stability and shareholder value creation.

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