A STUDY ON RISK MANAGEMENT OF HOSPITAL: DR REDDY'S LABORATORIES

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ABSTRACT

Risk management has become a critical function for organizations operating in highly competitive and regulated industries such as pharmaceuticals. This study examines the risk management practices adopted by Dr. Reddy's Laboratories, one of India's leading pharmaceutical companies. The research focuses on identifying and evaluating the various financial, operational, regulatory, and strategic risks faced by the company and the measures implemented to mitigate these risks. The study utilizes both primary and secondary data sources, including annual reports, financial statements, risk management disclosures, industry reports, and structured questionnaires administered to professionals associated with finance, compliance, and risk management functions. Financial performance and risk exposure were analyzed using liquidity and solvency indicators such as the Current Ratio, Quick Ratio, Debt-to-Equity Ratio, Working Capital Turnover Ratio, and Operating Cycle Analysis for the period 2021–2025.

KEYWORD : Risk Management, Pharmaceutical Industry, Dr. Reddy's Laboratories, Financial Risk, Liquidity Risk, Operational Risk, Corporate Governance, Compliance Risk, Working Capital Management, Enterprise Risk Management (ERM), Supply Chain Risk, Financial Performance.

1. INTRODUCTION

The word risk is derived from an early Italian word "risicae" which means dare". The story of mankind is a story of Threats and opportunities, of braving the risks and getting the rewards in the process. We may define risk emanating from a situation as something which throws a challenge to an act or not to act with regard to an event or happening. These challenges (or risks) under the different walks of life may take various forms. A soldier may the risk of life in a battle and a traffic police may run the risk of being hit by an automobile on the road. Thus, the concept of risk is synonymous with the uncertainties in proposition and the degree of risk may be computed in terms of probability of associated risks. It is possible to educe them to a manageable level but these cannot be wiped out altogether. In short, we cannot think of a zero- risk situation, whether in our work environment or in our personal lives. Risk taking is a deliberate action in the process of financial decision- making. The action results from an optimal choice made by the decision maker, which, in turns, emanates from a systematic analysis of the various alternatives available. Risk taking is a calculated decision and phases like outcome "fate" o "come what may", etc., do not find a place in the process of risk assessment. Particularly the risks associated with credit decisions taken by a banker, inter-relationship between the various credit related risks, qualification of such risks, theoretical framework of risk and the extent of their applicability in actual business decisions. We will also discuss about the principles and guidelines laid down in this context, both by the BIS (Bank for INTERNATIONAL settlement, Switzerland) and RBI (Reserve Bank of India). The various steps in construction of risk assessment models will also be discussed which would enable us to prescribe benchmarks for the purpose of decision making in dispensing credit. Any activity involves risk, touching all spheres of life, both personal and business, Risk is pervasive condition of human existence. The term risk has a variety of meaning in business and everyday life. Travelling in a car, crossing the road, investing in financial instruments, launching a new product all involves risk. At its most gnarl level, risk is used to describe any situation where there is uncertainty about what outcome will occur. Although our instinctive understanding of concept of risk is clear enough, terms that have a simple meaning in everyday usage sometimes have a specialized connotation when used in particular field. There is no universal accepted definition of risk. The term risk is variously defined as 3

- The chance of loss,
- The possibility of loss, Uncertainty,
- The dispersion of actual from expected results or
- The probability of any outcome different from the on expected.

1.1 . NEED OF THE STUDY:

Risk management is a scientific approach applied to the problem of risk. Although the term risk management is a recent phenomenon, the actual practice of risk management is as old as civilization itself. Risk management allows financial institutions to bring their risk levels to manageable proportions while not severely reducing their income. Factors like increasing competition, innovative products, technological revolution, and changing external operating environment makes it necessary that proper risk management systems b implemented, Risk management is thus a functional necessity and adds to the strength and efficiency of an organization on an ongoing basis.

1.2. SCOPE OF THE STUDY:

- The Study covers the basic meaning, concept, structure and the organization of the Risk.
- The different methods for VaR calculations are made with following method are:
- Variance – co variance method
- Historical method
- Constant maturity
- Monte carlo simulation
- The theoretical part of the study include the following concepts:-
- Characteristics of Risk Management.
- Advantages/ Disadvantages of Risk Management.
- Various methods of risk.
- Development of risk
- Various risk management techniques

1.3. OBJECTIVES OF THE STUDY :

- To study the methodology of risk analysis adopted by the D R REDDY"S.
- To understand the various risks involved in setting up an industrial project.
- To study various measures for controlling the risk.
- To evaluate the performances.

1.4. LIMITATIONS OF THE STUDY

- The study is conducted for the purpose of full fillment of the conditions stipulated by the University for Completion of course, so the study may not fulfil all the requirements of a detailed investigation.

- The study is conducted in a short period of 45days, which was not detailed in all aspects.
- Non availability of confidential financial data.

2. REVIEW OF LITERATUR

Dhanaraj et al. (2015): Studied market and expansion risks of Dr. Reddy's Laboratories in emerging markets.

Ghazzawi (2018): Examined strategic and operational risks and mitigation measures adopted by the company.

Viswanatha Reddy (2019): Analyzed liquidity, profitability, and financial distress using Altman's Z-Score and found strong financial stability.

Serra et al. (2020): Evaluated turnaround strategies used to overcome market and competitive pressures.

Jain & Balaji (2023): Assessed financial performance and found effective management despite generic market challenges.

Kumar & Sekar (2024): Studied the balance between R&D investment risk and market value creation.

Patel (2025): Highlighted diversification strategies to reduce geographic and regulatory risks.

Rehman & Mamatha (2026): Focused on working capital and inventory management to reduce supply chain and currency risks.

Balani (2026): Discussed patent, intellectual property, and legal risks in the pharmaceutical industry.

Research Gap

Most studies focus on individual risks such as financial, operational, supply chain, or compliance risks. However, limited research provides a comprehensive analysis of overall risk management practices at Dr. Reddy's Laboratories. Therefore, this study evaluates the company's integrated risk management approach and its effectiveness during 2021–2025.

3. RESEARCH METHODOLOGY

3.1. Industry Structure

The pharmaceutical industry consists of:

- Active Pharmaceutical Ingredients (APIs)
- Generic Medicines
- Biosimilars
- New Chemical Entities (NCEs)

These segments contribute significantly to healthcare accessibility and innovation.

3.2. Growth Drivers

Major factors driving industry growth include:

- Rising healthcare expenditure
- Growing aging population
- Increased demand for affordable medicines
- Expansion of health insurance coverage
- Continuous research and development activities

3.3. Regulatory Environment

The pharmaceutical industry is regulated by agencies such as:

- USFDA (United States)
- EMA (European Union)
- MHRA (United Kingdom)
- CDSCO (India)

Companies must comply with quality, safety, and manufacturing standards to avoid regulatory risks.

3.4. Porter's Five Forces Analysis

- Competitive Rivalry – High
- Bargaining Power of Buyers – High
- Bargaining Power of Suppliers – Low
- Threat of New Entrants – Low
- Threat of Substitutes – Moderate

3.5. Corporate Overview

Dr. Reddy's Laboratories was established in 1984 by Dr. K. Anji Reddy and is headquartered in Hyderabad, India. The company operates in more than 25 countries and is engaged in manufacturing generic medicines, APIs, biosimilars, and specialty pharmaceutical products

3.6. Products and Therapeutic Areas

Major business segments include:

- Global Generics
- Pharmaceutical Services and APIs
- Biosimilars
- Consumer Healthcare Products

Key therapeutic areas are Oncology, Gastroenterology, Cardiovascular, Diabetes, and Dermatology.

3.7. Financial Performance

Dr. Reddy's Laboratories has demonstrated strong financial growth through increasing revenues, profitability, and investment in research and development. The company consistently allocates a significant portion of its revenue to innovation and product development.

3.8. Global Presence

The company has a strong presence in:

- United States
- India
- Europe
- Russia & CIS
- Brazil and other emerging markets

Its diversified operations and global manufacturing facilities help reduce business and regulatory risks.

4. DATA ANALYSIS AND INTERPREATION

4.1.Valuation of Assets & Liabilities through Liquidity and Solvency Ratio Analysis (2021–2025)

The study on the risk management practices of Dr. Reddy's Laboratories evaluates the company's assets and liabilities using liquidity and solvency ratios from 2021 to 2025. Financial reports, annual reports, balance sheets, and ratio analysis were used to assess the company's capability to meet short-term and long-term obligations.

(A). CURRENT RATIO :

YEAR	CURRENT RATIO
2021	**1.78**
2022	**1.93**
2023	**2.61**
2024	**2.57**

2025	**1.92**

The Current Ratio measures the company's ability to meet its short-term obligations using its current assets.

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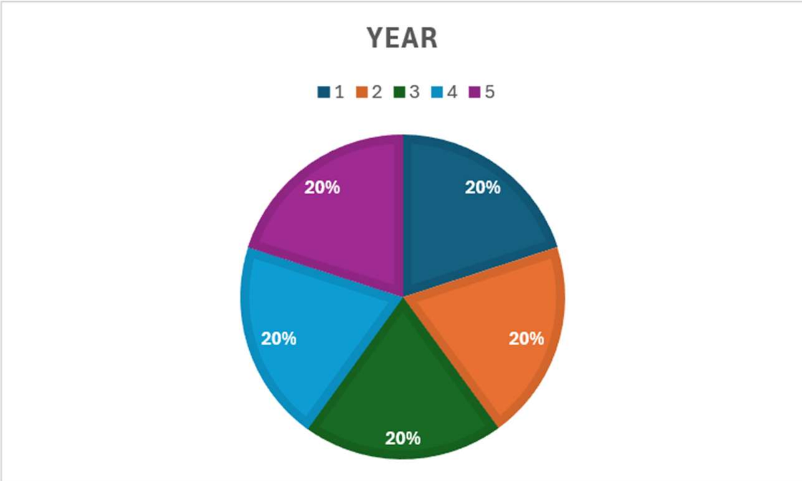


Interpretation :

The Current Ratio remained above 1 throughout the study period, indicating that Dr. Reddy's Laboratories maintained sufficient current assets to meet current liabilities. The highest ratio was recorded in 2023, reflecting strong liquidity management.

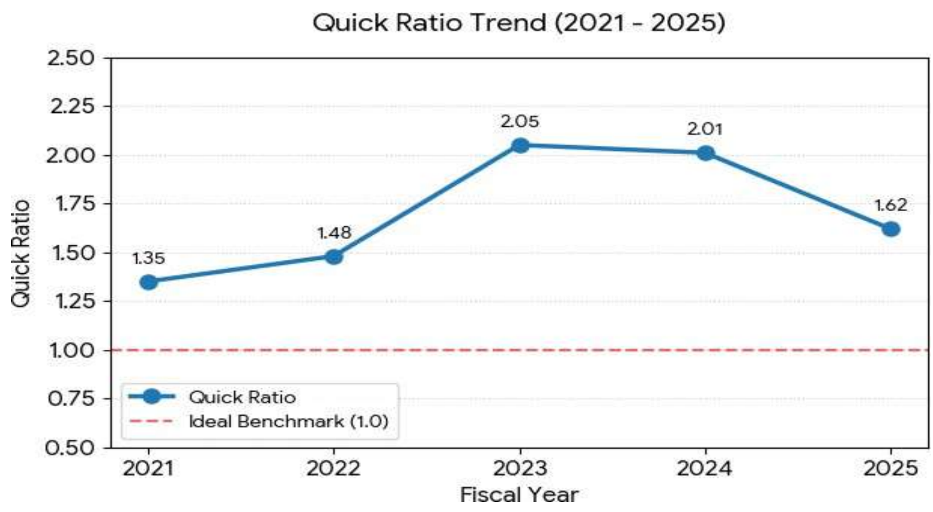
Although a slight decline was observed during 2021 and 2025, the company continued to maintain an adequate liquidity position. This suggests effective management of working capital and reduced short-term financial risk.

(B).QUICK RATIO :

The Quick Ratio evaluates the company's ability to meet immediate obligations using highly liquid assets without relying on inventory.

Quick Ratio Analysis

YEAR	QUICK RATIO
2021	1.35
2022	1.48
2023	2.05
2024	2.01
2025	1.62



Interpretation

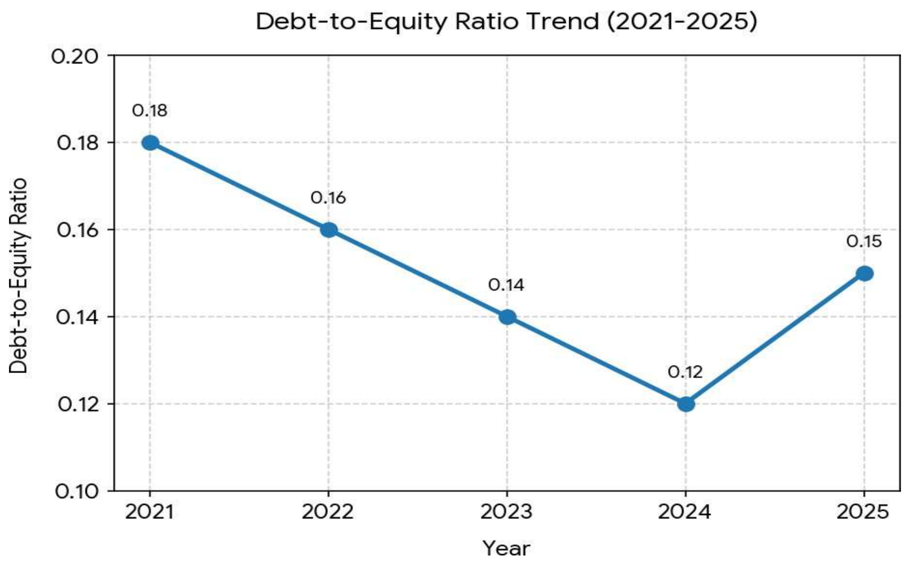
The Quick Ratio was always higher than the standard of one to one over the six years. This means the company had money and other liquid things like cash and marketable securities to pay what it owed right away.

The Quick Ratio was really high in 2023 which shows the company managed its money well. Even though the Quick Ratio went down a bit in the years after that the company is still in a position to pay its debts in the short term and it does not have a high risk of running out of money.

(C). Debt-to-Equity Ratio Analysis:

The Debt-to-Equity Ratio looks at how much the company's borrowing compared to what the shareholders own and it shows if the company is, in a good position to pay its debts in the long term.

YEARS	DEBT-TO-EQUITY RATIO
2021	0.18
2022	0.16
2023	0.14
2024	0.12
2025	0.15



Interpretation:

The Debt-to-Equity Ratio was really low for the time we were looking at it. This means the company did not have to rely much on borrowed money from outside. The Debt-to-Equity Ratio was the lowest in 2024. This shows that the company had good financial stability and a lot of its own money to work with. The Debt-to-Equity Ratio went up a bit in 2025. It was still at a level that is considered okay. This means the people in charge of the company are doing a job of managing the Debt-to-Equity Ratio and making sure they can pay their long term debts. The Debt-, to-Equity Ratio is still something to keep an eye on.

4.5. Financial Risk Analysis

(A). Liquidity Risk Analysis

Problem Statement

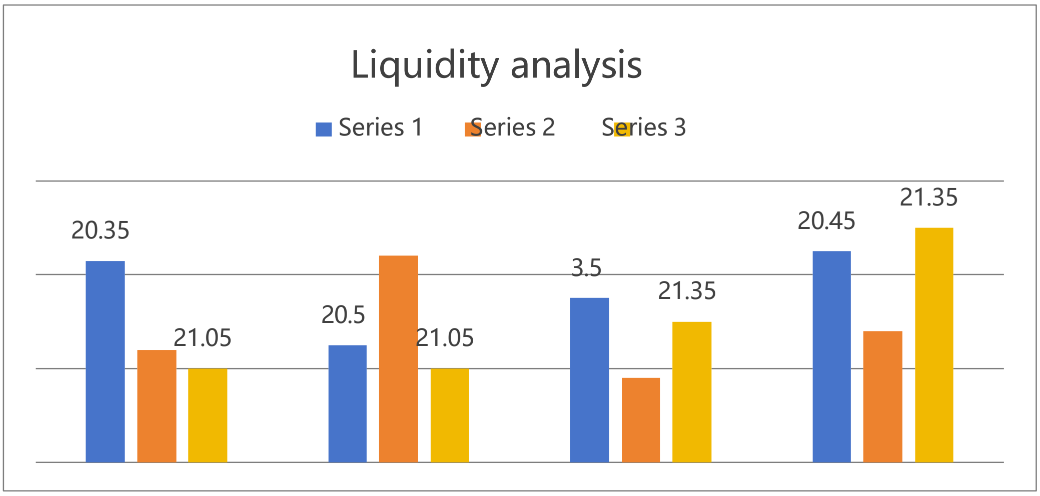
Liquidity risk is a concern, for companies. It happens when they can't pay their short-term debts on time.

A good liquidity management system helps a lot. It makes sure a company can meet its term financial obligations. This keeps the business running and ensures financial stability. The company needs to manage its liquidity risk This way it can avoid any problems.

Liquidity risk management is very important.

The company is wondering if it is holding onto inventory for long which could increase the risk of not having enough money available. The good news is that the company is now managing inventory better. This is because the time it takes to sell the inventory is shorter and the company is selling and replacing inventory often in 2024–25. This means the company has enough money available and is not tying up much money in inventory, which is a good thing, for the company's inventory management and overall financial situation.

YEAR	INVENTORY TURNOVER(TIMES)	INVENTORY HOLDING PERIOD(DAYS)
2020-2021	17.18	21.25
2021-2022	17.85	20.45
2022-2023	17.10	21.35
2023-2024	17.34	21.05
2024-2025	18.20	20.05



Interpretation

The inventory turnover went up from 17.34 to 18.20 times in 2024-25. This means the company is managing its inventory better. The holding period went down from 21.05 to 20.05 days. So the inventory is being sold quickly. When inventory moves faster it helps the company use its money efficiently and reduces the risk of not having enough cash. The inventory turnover and holding period trends show that the company is managing its cash and current assets effectively. The inventory turnover is getting better. This is a good thing, for the company.

5. FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 Findings

Based on the analysis of the annual reports and risk management disclosures of Dr. Reddy's Laboratories for the period 2021–2025, the following findings were observed:

1. Strong Enterprise Risk Management Framework.
2. Effective Liquidity Management.
3. Controlled Financial Risk Exposure.
4. Strong Corporate Governance Practices.
5. Focus on Regulatory and Quality Compliance.
6. Effective Supply Chain Risk Management.

5.2 Suggestions

The study suggests the following measures to further strengthen the risk management practices of Dr. Reddy's Laboratories:

1. Strengthen Predictive Risk Analytics.
2. Enhance Cybersecurity Infrastructure.
3. Diversify Supply Chain Sources.
4. Increase Foreign Exchange Risk Hedging.
5. Enhance Employee Risk Awareness Programs.
6. Strengthen Regulatory Compliance Monitoring.

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