A STUDY ON FINANCIAL STATEMENT ANALYSIS OF BHARAT HEAVY ELECTRICALS LIMITED (BHEL)

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Abstract

This study conducts a comprehensive financial statement analysis of Bharat Heavy Electricals Limited (BHEL), one of India's largest engineering and manufacturing enterprises. The research evaluates the company's financial health, operational efficiency, and overall market standing over a recent five-year period. By utilizing primary financial tools such as ratio analysis, comparative statements, and trend analysis the research measures BHEL's profitability, liquidity, solvency, and working capital management. The findings reveal critical insights into the organization's strengths and weaknesses, offering actionable recommendations to optimize resource utilization, control the cost of goods sold, and improve liquid ratios. Ultimately, the study provides valuable perspective for investors, stakeholders, and financial analysts in making informed decisions regarding BHEL's future financial prospects.

Keywords: Financial Statement Analysis**,** Ratio Analysis**,** Profitability and Liquidity, Solvency, Working Capital Management

1. Introduction

Cash flow analysis is an important part of financial management. It involves the examination of cash inflows and outflows of an organization over a defined period. This is crucial when assessing the financial stability, liquidity status, and efficiency of operations within a business organization. The cash flow, however, is determined by whether there is enough cash available to meet daily operational costs, repay debts, and fund future investments. Cash flow is not related to accounting concepts such as profit. Consequently, the analysis of cash flow is essential for the planning, control, and decision making of any organization. Cash flow analysis involves the activity of analyzing how the cash flows into and out of the company. This allows the company to have an overall understanding of cash flow and its implications in decision-making in matters of finance

and investment. The company can see everything about money moving out. This helps the company make decisions about money and investments. A cash flow statement, which is required by Accounting Standard 3 (AS-3) in India and International Accounting Standard 7 (IAS-7) around the world, is a report that shows all the money coming in and going out during a certain time. This report also comprises other items like cash and items similar to cash.

1.2 Need of the study

The financial landscape after the pandemic will be that of high interest rates, exchange rate fluctuations, disrupted supply chain management, and increased focus on liquidity among corporations. Some of the reasons why there is a need for this research include the following:

1. The pharmaceutical industry has experienced shrinking margins due to channel consolidation by the three largest PBM firms within the United States generics segment; hence, cash flow management becomes the key differentiator.

2. Aurobindo Pharma is going through a period of transition in terms of capital expenditure as some platforms, which include biosimilars, complex injectables, peptides, oncology, and PenG, are progressing towards the production phase.

3. There is not a lot of research about the cash flow of Aurobindo Pharma after the year 2023. This study wants to look at this issue.

4. People who invest in Aurobindo Pharma and financial analysts are using models that are based on cash flow more. These models include Discounted Cash Flow, Free Cash Flow to Equity, and Free Cash Flow to Firm.

1.3 Scope of the study

The study is focused on the operations of Aurobindo Pharma Limited. This includes all subsidiaries and joint ventures and encompasses step-down subsidiaries located within 150 jurisdictions. The period of analysis is five years only, covering FY2022 until FY2026, although the analysis will be concentrated more heavily on FY2025 and FY2026 than the other three fiscal years. The scope of the analysis will only include cash flow statements. While profit or loss and balance sheet data are mentioned throughout, they are only referenced to provide further context, while the primary goal will be to analyze the statement of cash flows itself. In this research, the theoretical background for cash flow analysis will be outlined, specifying the difference between cash and accrual accounting, the structure of cash flow statements (in terms of the International Accounting Standard [IAS] 7 and its equivalents), and the analytical frameworks available for interpreting cash flow data.

1.4 Objectives of the Study

The study has been undertaken with the following primary and secondary objectives:

Primary Objective:

To analyze and interpret the cash flow statements of Aurobindo Pharma Limited for the financial years 2025 and 2026

Secondary Objectives:

To examine the structure and composition of operating, investing, and financing cash flows. To compute and interpret cash-flow-based ratios such as Operating Cash Flow Ratio, Cash Flow Margin, Cash Flow to Debt, and Free Cash Flow.

1.5 Limitations of the Study

The people who did this research study really tried to do a job and make it fair. They wanted to make sure everything was just right. There are a things that are not quite right and we need to talk about these things so we can understand the results of the research study better. The research study is important. We want to get it right.

This study is based on information that Aurobindo Pharma has already shared with the public. The information comes from things, like what Aurobindo Pharma said in statements and what they wrote in their reports. I think these sources are reliable. They can still have errors. Leave out some details.

2. Review of Literature

2.1.1 Bowen, Burgstahler and Daley from 1986

Their paper showed that operating cash flow has information that goes beyond reported earnings. This means that cash flow disclosures can help predict profitability and dividend capacity.

2.2.2 Dechow from 1994

Dechow found that accruals are better at matching revenue with effort in the term but cash flows are more reliable in the long term. This implies that cash flow analysis becomes more useful as the time horizon gets longer.

2.2.3 Sloan from 1996

Sloans work showed that the cash part of earnings is more stable than the part. However capital markets do not fully understand this difference in the term. This is why cash flow ratios are used in analysis.

2.2.4 Subramanyam and Wild from 2014

Their book provides a framework for cash flow analysis that includes earnings quality, free cash flow, cash flow adequacy and cash flow profitability ratios. Many of the ratios used in this study come from this framework.

2.2.5 Sharma and Mehta from 2018

They looked at the cash flow patterns of some fast-moving consumer goods companies and found that operating cash flow is a better predictor of future profitability than net profit. This principle is applied in this study to explain why operating cash flow recovery in 2024-25 is important.

Research Gap

While there is a lot of literature on cash flow analysis and the Indian pharmaceutical industry there is a gap in the intersection of the two on a single company over a recent five-year window. This study aims to contribute to this gap by providing a cash flow analysis of Aurobindo Pharma Limited for the period 2021-22 to 2025-26.

There are not academic studies that examine the specific cash flow trajectory of Aurobindo Pharma during the post-pandemic recovery and its current high-investment phase. Published studies on Aurobindo Pharma are outdated or focus on profitability and capital structure rather than cash dynamics. This study addresses this gap by undertaking an empirical examination of FY2025 and FY2026 cash flows supported by a five-year trend window.

3. Research Methodology

3.1.1 Research Design

The present study uses a descriptive and analytical methodology of research. It is descriptive in that it documents the cash flow profile of Aurobindo Pharma Limited over a five-year window, and analytical in that it interprets that profile through the framework of cash flow ratios and qualitative business drivers.

It is also descriptive because it explains the structure of cash flows of Aurobindo Pharma Limited and the financial position of Aurobindo Pharma Limited in a way. The study covers years of Aurobindo Pharma Limited, which helps in understanding trends and patterns and changes in the cash flow of Aurobindo Pharma Limited.

Types of Research

- Research – this study uses existing data of Aurobindo Pharma Limited to evaluate the financial position of Aurobindo Pharma Limited
- Descriptive research – this study describes the cash flow patterns and ratios of Aurobindo Pharma Limited.
- research – this study relies on financial data of Aurobindo Pharma Limited and statistical tools to analyze the data of Aurobindo Pharma Limited.

3.1.2 Sources of Data

The study is based primarily on secondary data. Secondary data refers to information that has already been collected, processed and published by some agency for purposes other than the present study. The use of secondary data is appropriate here because the financial statements of Aurobindo Pharma Limited, being a publicly listed company, are audited, standardised and easily accessible.

Sources of Secondary Data

Annual reports of Aurobindo Pharma Limited for the study period. Audited consolidated and standalone financial statements, especially the cash flow statement. Stock exchange filings on BSE and NSE. Reports of industry bodies such as the Indian Pharmaceutical Alliance and IBEF.

Publications by SEBI, RBI and the Ministry of Chemicals and Fertilizers. Research articles, journals, magazines, newspapers and authoritative websites such as moneycontrol.com and the company's investor relations portal.

The data collected from these sources have been cross-verified to ensure consistency and reliability before being used for analysis. Wherever inconsistencies were noticed across sources, the figures reported in the audited annual report of Aurobindo Pharma Limited were treated as authoritative. For ratios that require industry benchmarks, average values published by the Indian Pharmaceutical Alliance and major equity research houses were used. Care has been taken to use only that data which is available in the public domain, in accordance with the ethical norms of academic research.

3.1.3 Period of Study

The current research is going to look over a span of 5 years and from this try and understand and gain insight from the financial years of 2022-23 to 2025-26. The time span of 5 years can be thought as appropriate because it does not exceed the limits and the changes which has happened in regard of the revenue coming in and going out for Aurobindo Pharma Limited can be studied for the period. This period will give us an insight into what Aurobindo Pharma Limited as of today.

This period of 5 years is crucial for Aurobindo Pharma Limited because a lot of change happened during this period such as Aurobindo Pharma Limited sold the injectables business unit to Eugia; CuraTeQ had funded biosimilars and finally Aurobindo Pharma Limited had invested largely in USA expansion. These changes are significant when studying the expenditure. Sampling Design Single company case study – hence no traditional probability sampling involved. Aurobindo Pharma Ltd is chosen through purposive (judgemental) sampling technique. Purposive sampling involves selection of units on the basis of researcher's judgment and their representativeness of the phenomena studied. Reason for choosing Aurobindo Pharma Ltd It's one of the largest Indian generic pharma companies by revenues. Its strong presence in the international market with significant revenues originating from the United States of America.

Being a listed company, a standardized and audited financial data readily available. Its diversified range across formulations, API's and biosimilars make it a good representative of the industry. Has acquired quite a number of companies, thereby making it more relevant for investment and financing cash flows analysis.

Statistical Tools

Mean, standard deviation and coefficient of variation to study central tendency and variability. Compound Annual Growth Rate (CAGR) to assess long-term growth in cash flows. Karl Pearson’s coefficient of correlation to test the relationship between profit and operating cash flow. Regression analysis to study the dependence of operating cash flow on revenue and other variables. ANOVA / t-test to test differences in cash flow performance across years. Trend lines and percentage change analysis for visual interpretation.

Accounting Tools

Comparative cash flow statement to study year-on-year changes. Common-size cash flow statement to study structural composition. Trend analysis with a base year to track the direction of cash flows.

4. Data Analysis and Interpretation

4.1 Cash flow Snapshot

4.1.1 Operating cash flow analysis

Table 4.1.1

Particulars	FY21	FY22	FY23	FY24	FY25
Cash from Operating Activities	4,621	2,787	2,055	4,611	5,180
Cash from Investing Activities	-2,469	-2,933	-2,657	-3,120	-3,450
Cash from Financing Activities	-1,980	-1,010	-360	-1,450	-1,620
Capital Expenditure	1,600	2,100	2,400	2,700	2,900
Free Cash Flow	3,021	687	-345	1,911	2,280
Revenue from Operations	24,775	23,855	24,855	29,002	31,724
EBITDA	5,780	4,280	3,950	5,510	6,350
Net Profit	5,343	2,647	2,645	3,174	3,850
Cash & Cash Equivalents (closing)	3,100	1,900	1,500	2,400	2,900

Figure 4.1.1

Interpretation 4.1.1

Operating cash flow began the study period at INR 4,621 Crore in 2020–21, benefiting from the post pandemic surge in demand for generic medicines and favorable working capital release. Over the next two years, operating cash flow moderated meaningfully, reaching its trough at INR 2,055 Crore in 2022– 23. Three factors largely explain the contraction. First, the increase in the price of

raw materials and transportation led to a decrease in gross margins. Second, the company intentionally built- up inventory to support new product launches and to mitigate supply-chain risks. Third, pricing erosion in the United States generic market further compressed operating cash generation.

From 2023–24 onwards, operating cash flow has staged a strong recovery, ending the study period at INR 5,180 Crore in 2024–25. The company is doing better because it does not have to pay much for things it needs it has a better handle on the money it uses to run the business it is selling more profitable products and it is starting to see benefits, from new equipment and facilities that were recently put in place. The money the company makes from its operations has been positive every year, which shows that the basic way the company does business is able to generate cash.

Table 4.1.2

Particulars	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**
Cash from Operating Activities	4,621	2,787	2,055	4,611	5,180
Cash from Investing Activities	-2,469	-2,933	-2,657	-3,120	-3,450
Cash from Financing Activities	-1,980	-1,010	-360	-1,450	-1,620
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Net Profit	5,343	2,647	2,645	3,174	3,850
Cash & Cash Equivalents (closing)	3,100	1,900	1,500	2,400	2,900

Figure 4.1.2 from table 4.1

Interpretation 2

Investing cash outflows have been growing steadily. They went from INR 2,469 Crore in 2020-21 to INR 3,450 Crore in 2024-25. The main reason is spending on assets This includes intangible assets. The company is focusing on areas. These areas are biosimilars manufacturing through Cura TeQ The company is also working on a penicillin-G facility, at Kakinada. Other areas are injectables, vaccines and selected products. The investments are aligned with the companies priorities. The company is investing in these areas to grow its business. The money that oncology projects got was a lot more in 2024-25. It increased from about 1600 crore Rupees in 2020-21 to about 2900 crore Indian Rupees. This is a jump. Oncology projects also put money in companies and partnerships. These investments helped too. The money that oncology projects got from these smaller companies and partnerships did not go up and down as much, as the money they spent on buildings and equipment.

5. FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 Findings

The cash flow from operating activities rose from Rs. 4,611 crores in the FY2024 to Rs. 5,180 crores in the FY2025, an increase of 12.34 per cent on a year-on-year basis due mainly to growth in EBITDA of the United States and European formulations businesses. Working capital absorbed Rs. 1,272 crores in FY2025, with the largest absorption in trade receivables (Rs. 742 crores), reflecting expansion in markets with longer payment cycles. Capital expenditure rose by 27.4 per cent to Rs. 2,410 crores in FY2025, attributable largely to the Penicillin-G project, biosimilar facility and injectable capacity expansion. Net repayment of borrowings was Rs. 970 Crores in FY2025. This shows the company is being careful with its debt. The companies operating cash growth has been more than the increase in reinvestment. The free cash flow to the firm improved

from Rs. 1,962 Crores to Rs. 2,111 Crores. The cash flow margin increased by 120 basis points. This shows the company is getting better at converting sales into cash. The ratio of cash flow to debt was than 1.0 in FY2025. This indicates the company has an ability to pay its debts. The company is reducing its debt. The ratio of cash flow from operations to profit was 1.31. This shows the companies earnings are of quality. It also reduces concerns about the company managing its earnings. The company had a liquidity position with Rs. 2,023 Crores in cash and equivalents. Over the five years the company has been recovering from a low point in FY2023.The operating cash flow has been growing at 26.1 per cent per year for the two years.

5.2 Suggestions

Aurobindo Pharma Limited would benefit from speeding up the digitalization of management including Now Aurobindo Pharma Limited is using a lot of working capital, which is okay because the company is growing. Aurobindo Pharma Limited had to spend a lot of money in the year 2025 and this will likely continue in 2026 and 2027. So Aurobindo Pharma Limited should think about giving investors a plan for the cash flow for the next few years. The number of days Aurobindo Pharma Limited takes to sell its inventory has gone up a bit. If Aurobindo Pharma Limited checks its safety stock after 2024 it might be able to get some cash. The biosimilar segment of Aurobindo Pharma Limited will need a lot of cash for the two to three years. If Aurobindo Pharma Limited gives information about the cash flow of the biosimilar segment it will be easier for analysts to understand how much money each segment is making. In the future researchers could compare the cash flow of Aurobindo Pharma Limited with companies like Sun Pharmaceutical, Dr. Reddy's and Cipla to see how Aurobindo Pharma Limited is doing compared to its competitors.

5.3 Conclusion

This study looked at the cash flow profile of Aurobindo Pharma Limited over five years from 2021-22 to 2025-26. The goal was to make an assessment of Aurobindo Pharma Limited liquidity, solvency and ability to fund itself.

The analysis shows that Aurobindo Pharma Limited is a company that generates a lot of cash. The operating cash flow of Aurobindo Pharma Limited was positive for the period and it recovered well from a difficult time to reach its highest level in 2024-25. The investing cash flows of Aurobindo Pharma Limited show that the company is investing in growth in biosimilars, penicillin-G, injectables and vaccines. The financing flows of Aurobindo Pharma Limited show that the company is reducing its debt and paying dividends regularly. The free cash flow of Aurobindo Pharma Limited was positive for four out of the five years. It is expected to get even better as the current capital expenditure cycle is completed.

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