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Research**An Analysis of Financial Statements: Measurement of Profitability with Reference to BHEL, Bhopal**

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Abstract: The objective of the study is to measure the profitability and validity of the financial statements of the business enterprise. This paper is prepared to analyze the financial statement and measure the performance of the organization in terms of profitability it is focusing on the performance of BHEL Bhopal. It is based on secondary data which have been collected from the annual reports of the company. In this paper calculation of the profitability ratios has been done to study the financial strength and position of BHEL Bhopal. The profitability ratios like gross profit ratio operating ratio operating profit ratio net profit ratio and return on investment ratio have been calculated in this paper to analyze the profitability and earning capacity of the business enterprise.

Keywords: BHEL, Financial statements, Performance, Profitability

Introduction

Financial statements are summarized statements of accounting data prepared by the enterprise at the end of an accounting process that is after preparing a trial balance it shows a summarized form of the financial performance of an enterprise for an accounting period. The analysis of financial statements is an attempt to determine the importance of the financial statements and their usage for planning and forecasting about future earnings, liquidity, solvency, and profitability. The financial statement is prepared at the end of the year and for understanding the financial statement analysis is done with the help

of tools of analysis. Financial statements help us to determine the financial position of a business and to ascertain the profit or loss earned by the business with the help of tools of analysis (Rashid 2018, Grewal 2024). The present study was undertaken with the following objectives, to analyze the earning capacity or the profitability of the company in the past five years, identify the financial position of the enterprise, and measure the performance in terms of profitability ratios.

Research Methodology**Company Profile**

BHEL is a Maharatna company of the Indian government. It is an integrated power plant and one of the leading engineering and manufacturing companies in India. BHEL has about 16 manufacturing divisions 4 regional offices 8 service centres to repair units and 15 regional centres. It is engaged in designing, engineering, constructing, testing, and servicing various types of products and services. BHEL Bhopal unit manufactures a wide range of electrical equipment. It has its own laboratories for testing materials which are accredited with ISO 17025 by NABL. The strength of BHEL Bhopal is its employees it consists of around 1162 engineers 950 supervisors and more than 2500 artisans as well as supporting staff. The area is spread over about 20 square kilometers and has provided all types of facilities to its residents whether it is a Bank, Post Office, shopping center, or Kasturba Hospital which contains 350 beds for its employees. The financial statement is a very crucial data of a company which contains the

most important information. By analyzing and interpreting the financial statements we can find out the profitability solvency liquidity and efficiency of the business. Through the present study, we can conclude the earning capacity of BHEL and also we can know the financial position of the enterprise. The objective of the study is to analyze the financial strengths and the weaknesses of BHEL with the help of ratio analysis we are going to calculate the profitability of the firm over the past 5 years. It would help us to forecast the profit of coming years and also to know the earning capacity over the past 5 years of the business enterprise (Bharat Heavy Electricals Limited 2024).

The research is done to measure the profitability or the earning capacity and performance of BHEL Bhopal. The research has been done on the basis of profit and loss accounts over the past 5 years taken from the annual reports of the company. It is based on secondary data collected from the annual reports of the company. Profitability ratios are the tools used for analyzing the financial statements of the company. The limitation of the study was that it is based on secondary data, the financial statements are prepared on the basis of a going concern, and only the profitability ratio is calculated for knowing the earning capacity of the company

Analysis- Profitability Ratios

The formula used to calculation was:

- a. Gross Profit Ratio= $\frac{\text{Gross Profit}}{\text{Net Sales}} * 100$
- b. Operating Ratio= $\frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Net Sales}} * 100$
- c. Net Profit Ratio= $\frac{\text{Net Profit}}{\text{Revenue from Operations}} * 100$
- d. Return of Investment= $\frac{\text{Profit Before Interest, Tax and Dividend}}{\text{Capital Employed}} * 100$ {Capital Employed = Share Capital + Reserve and Surplus + Long Term Borrowing |+ Long Term Provisions}

Results

Gross Profit Ratio

The gross profit of the company in the last five years has been in a decreasing stage from 2020 to 2022 and will remain constant from 2022 to 2024. It indicates that the company's performance has declined over the past years. It is trying to

increase its profit but it has been constant in the last three years. The company needs to increase its efficiency to increase its gross profit (Table 1, Fig. 1).

Table 1. Data showing the gross profit ratio of the company.

Year	2024	2023	2022	2021	2020
Gross Profit	70,856.70	69,212.60	62,894.40	45,222.50	53,144.20
Net Sales	238,927.80	233,649.40	212,110.90	133,839.10	173,086.90
Ratio	29.66%	29.62%	29.65%	33.78%	30.7%

This study focuses on profitability ratios which help us to know the forms profit. There are a number of ratios that come under profitability ratio, here we are using gross profit ratio, operating ratio, operating profit ratio, net profit ratio, and return on investment ratio for analysis and interpretation of data to make it meaningful and understandable.

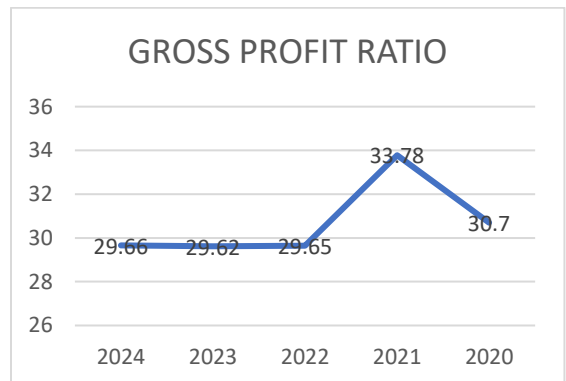


Fig. 1. Graph showing the gross profit ratio of the company.

Operating Ratio

The operating ratio of the firm is more than 100% which indicates the company is unable to generate profits from its investing activities. However, there has been a decline in the operating ratio from 2021 to 2024. The company is inefficient in gaining profit through underwriting and investing activities (Table 2, Fig. 2).

Table 2. Data showing the operating ratio of the company.

Year	2024	2023	2022	2021	2020
Cost of Revenue from Operations	168,071.10	164,436.80	149,216.50	119,942.70	-
Net Sales	238,927.80	233,649.40	212,110.90	133,839.10	173,086.90
Operating Expenses	235,290.80	233,595.90	208,594	209,776.80	-
Ratio	169.20%	170.35%	168.86%	246.3%	-

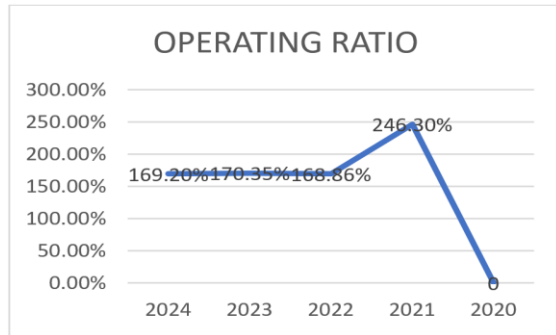


Fig. 2. Graph showing the operating ratio of the company.

Net Profit Ratio

This ratio indicates overall efficiency of the business. Higher the net profit ratio, better the business. BHEL, Bhopal seems to have a very poor performance in 2021. But tried to improve the net profit from 2022, declining in the upcoming years. The performance or can say the earning capacity of the company is extremely poor (Table 3, Fig. 3).

Table 3. Data showing the net profit ratio of the company.

Year	2024	2023	2022	2021	2020
Net Profit After Tax	2,822.20	4,773.90	4,447.10	-26,997	-
Net Sales	238,927.80	233,649.40	212,110.90	133,839.10	173,086.90
Ratio	1.18%	2.04%	2.09%	-20%	-

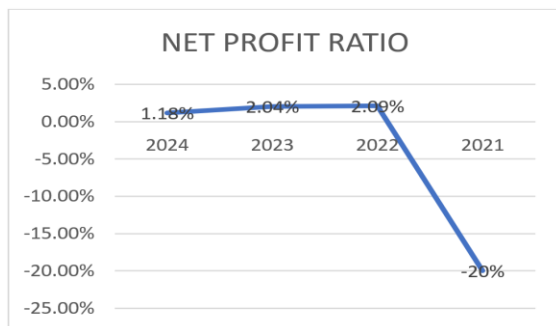


Fig. 3. Graph showing the net profit ratio of the company.

Return on Investment or Return on Capital Employed

This ratio assesses the overall performance of the enterprise. It measures how efficiently the resources entrusted to the business are used. It can be seen that the overall performance of the enterprise has been drastically declined in 2021 but increased in 2022 and again declined in 2024. This shows that the overall performance of the company is poor. The resources are not efficiently utilized (Table 4, Fig. 4).

Table 4. Data showing the return on investment of the company.

Year	2024	2023	2022	2021	2020
Profit Before Interest, Tax and Dividend	220.33	449.60	436.95	-3,611.60	-662.11
Capital Employed	34,084.63	36,452.47	35,337.17	35,379.58	37,656.61
Ratio	0.64%	1.23%	1.23%	-10.21%	-1.75%

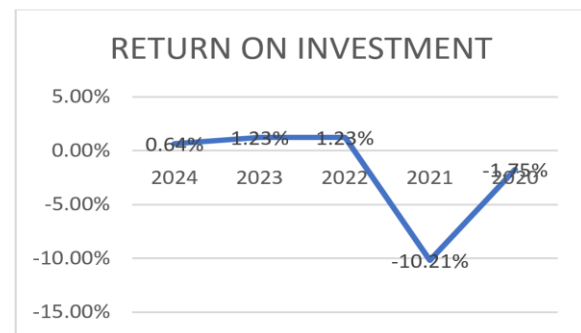


Fig. 4. Graph showing the return on investment of the company.

Conclusion

After the research, it can be concluded that the performance and the profitability of BHEL Bhopal is not very good, it's very poor. The gross profit ratio is average but the operating ratio and net profit ratio as well as the return on investment ratio are extremely poor from which we can say that the position of BHEL is extremely poor and in a declining stage. It should improve its performance by increasing the efficiency of its resources and the operational efficiency of management and the business. It should also try to lower the cost of goods sold. On seeing the position, I conclude that it is not a good decision to invest as a stake of owners in the company as its long-term debt is continuously increasing. It means that the company is not in the stage of paying off its creditors and is at risk. However, in

the past years, it has been trying to increase its managerial and efficiency performance but should take more efficient steps to exist in the market (Money Control 2024a, b). BHEL Bhopal has achieved a total turnover of rupees 22920 crore during the financial 202324 which is 3.5% more than the previous year.

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