

A Study on Cashflow Analysis and Its Impact on Financial Performance in HEPL

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Abstract - Cash flow analysis serves as a fundamental tool for evaluating an organization's liquidity, solvency, and overall financial performance. This study focuses on examining the cash flow patterns of Hema's Enterprises Pvt. Ltd. (HEPL) over a five-year period, with special emphasis on operating, investing, and financing activities. By integrating ratio analysis with cash flow evaluation, the research aims to provide a comprehensive understanding of the company's ability to generate, allocate, and manage financial resources effectively.

The study adopts a secondary data approach, utilizing financial statements such as the Balance Sheet, Profit and Loss Account, and Cash Flow Statement. Analytical tools, including liquidity ratios and trend analysis, are applied to assess the company's short-term financial strength and operational efficiency. The findings reveal the interrelationship between cash flow performance and financial ratios, highlighting areas where liquidity management directly impacts profitability and stability.

The results of this analysis are intended to aid management in making informed financial decisions, improving working capital management, and enhancing long-term sustainability. The insights derived from this study can also serve as a reference for similar manufacturing firms seeking to strengthen their financial planning and cash management practices.

Keywords: Liquidity, Ratio Analysis, Operating Activities, Investing Activities, Financing Activities, Financial Performance, HEPL.

I. INTRODUCTION

In the dynamic business environment, effective financial decision-making is critical for sustaining profitability and long-term growth [5][6]. Among the various tools available for evaluating a company's financial position, cash flow analysis plays a vital role as it provides a detailed picture of the actual inflow and outflow of funds within the organization [1][8]. Unlike profit figures, which may be influenced by

accounting policies or accrual adjustments, cash flow statements offer a transparent view of liquidity, solvency, and operational efficiency [11][9].

Cash flow is broadly classified into three categories: cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. Each category reflects different aspects of a company's financial health—operating cash flows indicate core business performance, investing cash flows show the allocation of resources towards growth, and financing cash flows reveal capital structure decisions [10][12]. A balanced analysis of these components enables management to identify strengths, weaknesses, and areas requiring corrective action [2][3].

For manufacturing and engineering enterprises like Hema's Enterprises Pvt. Ltd. (HEPL), managing liquidity is particularly crucial due to the capital-intensive nature of operations, seasonal demand fluctuations, and reliance on timely procurement of raw materials [4][14]. By examining cash flows alongside key financial ratios, stakeholders can gain insights into the company's capacity to meet short-term obligations, reinvest in expansion, and return value to shareholders [15].

This study focuses on analyzing HEPL's cash flows for the period 2020–2024 to assess its financial health and evaluate the impact on overall financial performance. The findings aim to support informed managerial decisions, improve cash management practices, and strengthen financial planning for future sustainability [13]. It provides a clear view of liquidity, solvency, and operational efficiency [11][9]. Cash flows are classified into operating, investing, and financing activities, each representing different aspects of financial health [10][12]. This study analyzes HEPL's cash flows from 2020–2024 to assess financial health and support effective decision-making [13].

II. LITERATURE REVIEW

1. Mehta and Sharma (2020) conducted an extensive analysis of Indian manufacturing firms, focusing on the

relationship between operating cash flows and liquidity management. Their study found that organizations with consistently positive operating cash flows were better equipped to meet short-term obligations, finance operational needs without excessive reliance on debt, and sustain business continuity even in volatile market conditions. They concluded that cash flow analysis provides a more accurate measure of financial strength than profitability alone, particularly in capital-intensive sectors.

2. Agarwal and Nair (2021) examined the financial survival strategies of small and medium enterprises (SMEs) during the COVID-19 pandemic. Their research highlighted that effective cash flow management, when paired with trend analysis, allowed businesses to predict future shortages and take timely corrective actions. The study emphasized that in crisis conditions, cash availability and liquidity ratios become more important than net profit in determining the resilience of an organization.

3. Rao *et al.* (2022) explored the significance of cash flow in capital budgeting and long-term investment decisions. By studying a sample of large-scale enterprises, they observed that companies with stable and surplus operating cash flows were more flexible in funding expansion projects without resorting to high-cost borrowings. The research suggested that integrating cash flow assessment into investment planning reduces financial risk and supports sustainable growth.

4. Thomas and Verma (2023) focused on liquidity analysis in the engineering sector, identifying a strong correlation between quick ratio improvements and growth in operating cash flows. Their findings indicated that companies that managed their current assets and liabilities efficiently were able to enhance operational cash generation, leading to improved financial stability. They concluded that the combined use of liquidity ratios and cash flow statements provides a more comprehensive understanding of a company's financial performance.

III. OBJECTIVES OF THE STUDY

1. To analyse the operating, investing, and financing cashflow to assess the financial health and liquidity.
2. To examine the combined effect of cashflow practices on overall financial performance

IV. RESEARCH METHODOLOGY

This study is analytical in nature, focusing on the assessment of cash flows and their impact on the financial performance of Hema's Enterprises Pvt. Ltd. (HEPL). The research is based entirely on secondary data obtained from the company's audited financial statements for the period FY

2020–FY 2024, including the Balance Sheet, Profit and Loss Account, and Cash Flow Statement.

Sources of Data

- **Secondary Data:** Collected from HEPL's annual reports, audited financial statements, and relevant industry publications.
- **Supporting Sources:** Standard textbooks on financial management, published research papers, and credible online financial databases to provide theoretical and analytical support.

Tools used for analysis

Ratio analysis, cashflow statement analysis, liquidity analysis, trend analysis.

V. DATA INTERPRETATION AND ANALYSIS

Ratio Analysis

Operating cashflow ratio

Year	Ratio
2020-2021	-0.017
2021-2022	-0.056
2022-2023	0.046
2023-2024	-0.026

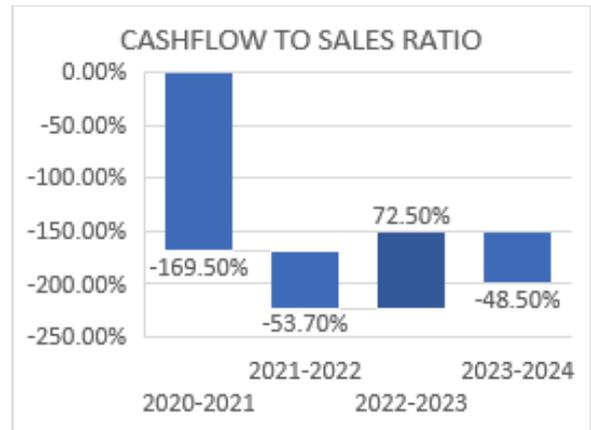
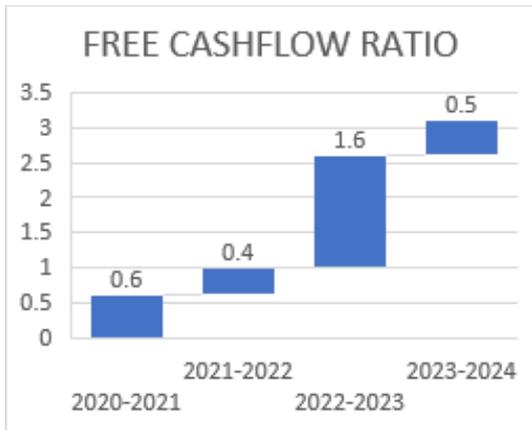


Interpretation

The Operating Cash Flow Ratio was negative in most years, showing unstable cash generation from core business activities.

Free cashflow ratio

Year	Ratio
2020-2021	0.6
2021-2022	0.4
2022-2023	1.6
2023-2024	0.5

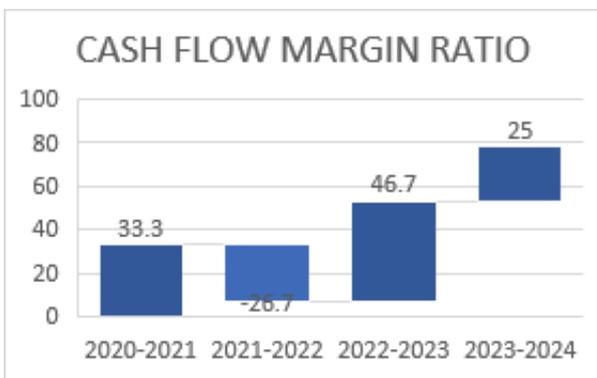


Interpretation

Free Cash Flow was high only in 2022–23, indicating irregular surplus cash after capital expenses.

Cashflow Margin

Year	Ratio
2020-2021	33.3
2021-2022	-26.7
2022-2023	46.7
2023-2024	25



Interpretation

Cash Flow Margin fluctuated heavily, proving that profit is not consistently converting into cash.

Cashflow to Sales Ratio

Year	Ratio
2020-2021	-169.5%
2021-2022	-53.7%
2022-2023	72.5%
2023-2024	-48.5%

Interpretation

The Cash Flow to Sales Ratio remained negative in 3 out of 4 years, meaning sales were not effectively realized in cash.

Cash Return on Assets

Year	Ratio
2020-2021	-1.54
2021-2022	-2.88
2022-2023	2.67
2023-2024	-1.76

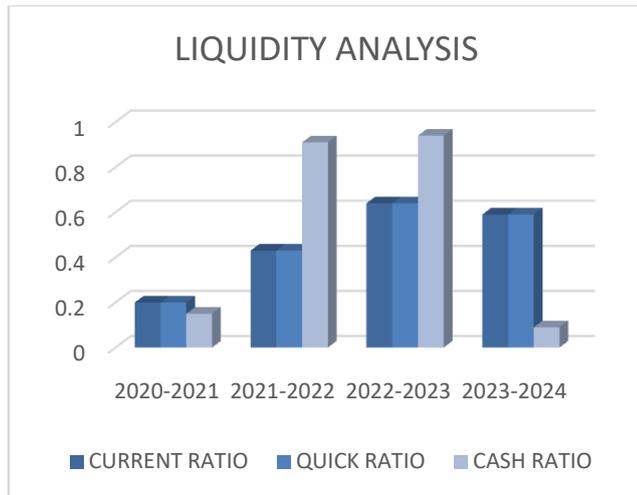


Interpretation

Cash Return on Assets was mostly negative, showing poor efficiency in using assets to generate cash.

Liquidity Analysis

YEAR	CURRENT RATIO	QUICK RATIO	CASH RATIO
2020-2021	0.2	0.2	0.15
2021-2022	0.43	0.43	0.91
2022-2023	0.64	0.64	0.94
2023-2024	0.59	0.59	0.09



Interpretation

The liquidity position of HEPL was weak in 2020–21 but improved during 2021–22 and 2022–23, showing better short-term solvency. However, in 2023–24, liquidity declined again, indicating inconsistent ability to meet short-term obligations.

VI. RESULT AND DISCUSSIONS

The results of the study show that HEPL’s overall cash flow performance during the period 2020–2024 was highly inconsistent, reflecting weaknesses in financial management. The operating cash flow ratio remained negative in most years, highlighting the company’s inability to generate sufficient cash from its core operations on a sustained basis, with a brief improvement only in 2022–23. Free cash flow was positive only in one year, indicating that surplus funds after capital expenditure were irregular, thereby limiting the firm’s capacity to reinvest or repay debts. Similarly, cash flow margins and the cash flow to sales ratio fluctuated sharply, proving that profits were not consistently converted into actual cash inflows. The cash return on assets was also largely negative, pointing to inefficient use of resources to generate liquidity. Liquidity ratios revealed that while the company’s short-term solvency improved in 2021–22 and 2022–23, it again declined in 2023–24, exposing the firm to potential risks in meeting immediate obligations. Overall, the findings indicate that although HEPL demonstrated some improvement during the middle years, its unstable cash generation and irregular liquidity position pose challenges for long-term sustainability and highlight the need for better cash management and working capital control.

VII. SUGGESTIONS

To improve its financial performance, HEPL should focus on strengthening its cash flow management and liquidity position. The company must take effective measures to ensure

consistent positive operating cash flows by controlling operating expenses and improving receivables collection. Better credit management and timely follow-up with debtors can help convert sales into actual cash inflows. At the same time, unnecessary capital expenditures should be avoided, and investments should be planned carefully to maintain sufficient free cash flow for reinvestment and debt repayment. The firm also needs to maintain an optimal balance of current assets and current liabilities to ensure steady liquidity and short-term solvency. Regular monitoring of cash flow statements and ratio analysis should be adopted as part of financial planning so that corrective actions can be taken quickly in case of negative trends. By adopting efficient working capital management, cost control strategies, and improved financial planning, HEPL can achieve stability in cash flows and enhance its long-term sustainability.

VIII. CONCLUSION

The study on HEPL’s cash flow analysis clearly highlights that the company’s financial performance has been inconsistent over the five-year period. While there were signs of improvement in certain years, the overall trend reflects unstable operating cash flows, irregular free cash generation, and fluctuating liquidity ratios. These findings indicate that profits are not effectively translating into actual cash inflows, which weakens both short-term solvency and long-term financial sustainability. The analysis emphasizes that efficient cash flow management, better working capital control, and strategic financial planning are essential for the company to maintain stability and growth. Therefore, it can be concluded that HEPL must strengthen its cash management practices to achieve consistent performance, ensure timely fulfillment of obligations, and support sustainable business expansion in the future.

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