

INTERPRETATION OF FINANCIAL STATEMENTS OF HBL ENGINEERING LTD

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Introduction

The interpretation of financial statements is a critical process that enables stakeholders to evaluate a company's financial health, performance, and sustainability. For HBL Engineering Ltd, a company engaged in engineering solutions and services, financial statement analysis helps in understanding its profitability, liquidity, solvency, and operational efficiency over a specific period. By examining key financial documents such as the income statement, and balance sheet, we can uncover trends, assess financial strengths and weaknesses, and provide insights for strategic decision-making.

This analysis of HBL Engineering Ltd involves the application of various financial ratios—including profitability ratios, liquidity ratios, gearing ratios, and shareholder return measures—to interpret how effectively the company has utilized its resources. It also aids in comparing past performance and benchmarking against industry standards. Overall, the interpretation of financial statements not only reflects the company's current financial position but also helps forecast its future prospects and investment potential.

Objective

The objective of this project is to conduct a comprehensive interpretation of the financial statements of HBL Engineering Ltd, with the goal of gaining a clear and insightful understanding of the company's financial stability, performance trends, and value creation for stakeholders. By applying key financial analysis tools and techniques, the project seeks to evaluate how effectively the company manages its resources and fulfills its financial obligations.

This analysis involves an in-depth review of the income statement, and balance sheet, supplemented with ratio analysis covering profitability, liquidity, solvency, efficiency, and shareholder returns. The project also aims to identify patterns and anomalies in financial performance over multiple periods, benchmark against industry standards, and assess the company's potential for growth and risk exposure.

Ultimately, the findings from this financial interpretation will support strategic decision-making by offering well-informed insights and actionable recommendations to management, investors, and other stakeholders concerned with the financial health and sustainability of HBL Engineering Ltd.

About the company

HBL Engineering Ltd is a well-established Indian company operating in the industrial engineering and technology solutions sector. With a diversified portfolio that includes industrial batteries, electronic systems, and control and automation solutions, the company primarily serves critical industries such as defense, railways, power, and infrastructure. Its strong focus on innovation, precision engineering, and product customization has positioned it as a reliable partner for high-value, mission-critical projects across both domestic and international markets.

The company's operations are supported by robust research and development capabilities, efficient manufacturing systems, and a commitment to quality and sustainability. Over the years, HBL Engineering Ltd has demonstrated consistent operational growth and technical excellence, allowing it to adapt to evolving industry demands and technological advancements. Its strategic approach to cost control, supply chain efficiency, and customer satisfaction contributes significantly to its overall financial performance.

Given the company's broad industrial footprint and capital-intensive operations, this project aims to interpret and analyze its financial statements to assess financial health, profitability, liquidity, and solvency. Through detailed ratio analysis and financial performance evaluation, the project provides insights into how effectively HBL Engineering Ltd is managing its resources and generating value for stakeholders, forming a crucial foundation for investment decisions and strategic planning.

Financial Statements

STATEMENT OF PROFIT AND LOSS (in crores)		
Particulars	2024	2025
Sales	2,233.36	1,967.20
Expenses	1,809.90	1,575.16
Operating Profit	423.46	392.04
Other Income	7.52	25.11
Depreciation	41.26	44.19
Interest	12.94	13.02
Profit before tax	376.78	359.94
Tax	96.43	97.37
Net profit	280.89	276.92

STATEMENT OF FINANCIAL POSITION (in crores)		
Particulars	2024	2025
<u>Equity</u>		
Equity Share Capital	27.72	27.72
Reserves	1,177.62	1,430.60
Borrowings	55.75	62.55
Current Liabilities	362.68	416.55
Total	1,623.77	1,937.42
<u>Assets</u>		
Fixed Assets	345.18	383.6
Capital Work in Progress	17.99	68.18
Investments	93.25	265.62
Current Assets(wn1)	1,167.35	1,220.02
Total	1,623.77	1,937.42

WORKING NOTES

WN1		
CURRENT ASSETS	2024	2025
Inventories	429	521
Trade receivables	386	386
Cash Equivalents	232	137
Loans n Advances	23	55
Other asset items	98	121
TOTAL	1168	1220

WN2		
CURRENT LIABILITIES	2024	2025
Trade Payables	129	179
Advance from Customers	48	-
Other liability items	186	237
TOTAL	363	416

Calculation of ratios

PROFITABILITY RATIOS

PARTICULAR	FORMULA	2024	2025
Revenue	-	2,233.36	1,967.20
Operating Profit margin	$(\text{Operating Profit} / \text{Revenue}) \times 100$	19%	20%
Net Profit margin	$(\text{Net Profit} / \text{Revenue}) \times 100$	13%	14%
Return on Capital employed	$(\text{Operating Profit} / \text{Capital Employed}) \times 100$	34%	26%

LIQUIDITY RATIOS

PARTICULAR	FORMULA	2024	2025
Current Ratio	Current Assets / Current Liabilities	3.22	2.93
Quick Ratio (Acid Test)	$(\text{Current Assets} - \text{fictitious assets}) / \text{Current Liabilities}$	3.15	2.8
Receivable collection period	$(\text{Receivables} / \text{Revenue}) \times 365$	63	72
payable payment period	$(\text{Payables} / \text{Purchases}) \times 365$	26	41

GEARING RATIO

PARTICULAR	FORMULA	2024	2025
Debt to Equity Ratio	Total Debt / Total Equity	5%	4.30%
Interest Coverage Ratio	Operating Profit / Finance Cost	32.72	30.11
Gearing Ratio	$(\text{Long-term Debt} / (\text{Equity} + \text{Long-term Debt})) \times 100$	4.40%	4.10%

LIQUIDITY RATIOS

PARTICULAR	FORMULA	2024	2025
Earnings Per Share (EPS)	Net Profit After Tax / Number of Ordinary Shares	10.13	9.99
Price to Earnings Ratio (P/E)	Market Price per Share / EPS	46.38	60.06
Dividend Yield	(Dividend per Share / Market Price per Share) × 100	0.11%	0.17%
Dividend Cover	EPS / Dividend per Share	20	10

WORKING NOTES

particulars	2024	2025
capital employed =	1,261	1,521

PARTICULAR	2024	2025
NO OF SHARES	27.72	27.72
SHARE PRICE	470	600
DIVIDENDS	14.04	27.69
DIVIDEND PER SHARE	0.51	1

Interpretation

1. Profitability Ratios

- Operating Profit Margin increased from 19% in 2024 to 20% in 2025, despite a fall in revenue from ₹2,233.36 crores to ₹1,967.20 crores. This suggests improved operational efficiency or cost control, possibly due to better sourcing, automation, or reduced variable costs.
- Net Profit Margin also improved from 13% to 14%, indicating stronger bottom-line profitability. This could be attributed to increased other income (₹25.11 crores in 2025 vs ₹7.52 crores in 2024), along with relatively stable finance and depreciation costs.
- Return on Capital Employed (ROCE) declined significantly from 34% to 26%. This drop, despite stable profitability, is due to a 20.6% increase in capital employed (₹1,261 crores to ₹1,521 crores), possibly resulting from higher investment in fixed assets or working capital. The return didn't scale proportionally with the capital deployed.

2. Liquidity Ratios

- Current Ratio decreased slightly from 3.22 to 2.93, and Quick Ratio also dipped from 3.15 to 2.80, indicating a marginal decline in short-term liquidity. This is mainly due to a rise in current liabilities from ₹363 crores to ₹416 crores and relatively slower growth in current assets (₹1,168 crores to ₹1,220 crores).
- Receivable Collection Period increased from 63 days to 72 days, showing a deterioration in receivables management. This could signal delayed payments from customers, potential credit policy issues, or weaker collection efforts.

- Payables Payment Period rose from 26 days to 41 days, meaning the company is taking longer to pay its suppliers. While this might improve cash flow in the short term, excessive delays can strain supplier relationships or indicate cash flow challenges.

3. Gearing & Solvency Ratios

- Debt to Equity Ratio decreased from 5% to 4.3%, showing reduced financial leverage and a stronger equity base (reserves increased from ₹1,177.62 lakhs to ₹1,430.60 lakhs). This is generally a healthy trend, reflecting greater solvency.
- Interest Coverage Ratio declined from 32.72 to 30.11, though still very strong. The decrease reflects slightly reduced operating profit but manageable finance costs. The company comfortably covers its interest obligations, suggesting low default risk.

Gearing Ratio reduced from 4.4% to 4.1%, further reinforcing the company's conservative approach to debt financing in 2025.

4. Market Performance & Shareholder Metrics

- Earnings Per Share (EPS) declined slightly from ₹10.13 to ₹9.99, in line with the small decrease in net profit. However, Price-to-Earnings (P/E) Ratio increased sharply from 46.38 to 60.06, suggesting that the market expects higher future earnings or perceives strong non-financial strengths (like brand, innovation, or growth potential).
- Dividend Yield improved from 0.108% to 0.166% due to a higher dividend per share (₹0.51 to ₹1.00). However, the Dividend Cover dropped from 20 to 10, indicating that the company is distributing a larger portion of its earnings as dividends—possibly to attract or reward shareholders despite a flat profit trend.

Conclusion

The financial analysis of HBL Engineering Ltd for the years 2024 and 2025 reflects a stable and moderately improving performance in terms of profitability and financial health. Despite a decline in total revenue, the company managed to improve its operating and net profit margins, highlighting better cost control and operational efficiency. However, the decline in Return on Capital Employed (ROCE) indicates that the additional capital invested has not yet translated into proportionate returns, suggesting a need to enhance capital productivity.

Liquidity ratios show a minor weakening, with both current and quick ratios slightly declining. This, combined with the increase in receivable collection period, points to potential inefficiencies in working capital management. The company is holding higher receivables and inventory, which could tie up funds and impact cash flow. While the payables period has increased—possibly to conserve cash—maintaining strong supplier relationships is crucial. Additionally, a rise in market valuation and dividend payout shows investor confidence, but the drop in dividend cover may limit flexibility for reinvestment if profits stagnate.

To improve future performance, HBL Engineering Ltd should focus on optimizing capital allocation and improving receivables collection efficiency. Implementing stricter credit policies and enhancing customer recovery cycles could free up cash and reduce reliance on payables. Investing in automation and supply chain efficiency may also help improve ROCE and reduce working capital pressure. While the company maintains a strong debt position, carefully balancing reinvestment with shareholder returns will be key to sustaining growth and market confidence.