American Scholarly Journal for Scientific Research (ASJSR)
https://asjsr.org/ Volume 2026, Issue 1004 ISSN: 3143-2999

Reported Profit and Operating Cash Flow at Infosys: A Three-Year Case Study - Financial Years 2023–24 to 2025–26

Author: Dhruv Chadha
Institution: Pathways World School, Gurgaon, India
Mentor: Rohit Gupta

Abstract

This paper examines why reported profit and operating cash flow differed at Infosys during FY2023–24, FY2024–25 and FY2025–26. It uses secondary data from audited consolidated financial statements prepared under Indian Accounting Standards. The analysis compares profit after tax with net operating cash flow, calculates ratios and reconciles the differences through non-cash adjustments, operating asset and liability movements, and cash taxes. Operating cash flow represented 96.05%, 133.44% and 115.31% of profit respectively. Across the period, cumulative operating cash flow exceeded cumulative profit by ₹12,418 crore, but the annual relationship varied substantially. Working-capital movements and the timing of tax payments explain much of this variation. In FY2025–26, cash generated before tax increased, while larger net tax payments caused operating cash flow to decline. The findings demonstrate the value of reading profit and cash-flow statements together and interpreting ratios through their underlying accounting components.

Keywords: accrual accounting, operating cash flow, Infosys, working capital, financial statement analysis

Introduction

A company can report a profit without receiving an equal amount of cash during the same year. This distinction matters because salaries, supplier payments and other obligations require cash, while reported profit measures financial performance according to accounting recognition rules. Understanding the relationship helps readers evaluate how a business earns income, collects money and finances its daily activities. It also prevents the assumption that an increase in profit must produce an identical increase in cash.

For a student studying accounts, the issue connects familiar classroom topics to real financial statements. A credit sale creates revenue and a receivable before payment arrives. Depreciation

reduces profit even though the associated asset purchase may have occurred earlier. An expense can be recognised before its cash settlement. These examples show how financial statements describe different aspects of the same transactions, rather than competing versions of a company's performance.

The International Accounting Standards Board (IASB, 2018, paras. 1.17–1.20) explains that accrual information and cash-flow information provide complementary insights into performance and the capacity to generate cash. This paper applies that distinction to Infosys through a focused examination of three completed financial years. The company provides an accessible case because its published consolidated statements reconcile profit to operating cash flow (Infosys Limited, 2025, 2026).

The central research question is: Why do reported profit and operating cash flow differ at Infosys, and how consistent is that difference over three years? Consistency is assessed in three ways: whether cash flow remains above or below profit, whether the relative size of the gap stays stable, and whether the same accounting components explain it. The purpose is to develop an evidence-based explanation of the relationship, without presuming that either a positive or negative gap is automatically desirable.

Conceptual Background and Literature

Accrual profit and cash receipts

Accrual accounting records the economic effects of transactions when those effects occur, even if cash is received or paid in another period (IASB, 2018, para. 1.17). Profit therefore includes recognised revenues and expenses rather than simply the difference between cash receipts and payments. This supports performance measurements across periods, but it also means that profit alone cannot explain the cash generated during a particular year.

Consider a hypothetical service business that earns ₹100,000 in March and receives payment in April. Assuming the revenue-recognition conditions are satisfied in March, the income belongs to the earlier period even though the cash arrives later. Conversely, cash collected in advance may precede the recognition of revenue. This illustration explains timing only; it is not a transaction taken from Infosys's records.

The indirect cash flow method

Ind AS 7 permits the indirect method, which adjusts profit for non-cash items, operating accruals and items whose cash effects belong to investing or financing activities (Institute of Chartered Accountants of India [ICAI], 2025, paras. 18–20). Depreciation is added back because its recognition as an expense does not itself involve a current operating cash payment. This adjustment does not mean that assets are free: their purchase usually appears separately within investing activities.

A second hypothetical example shows why adding back depreciation does not create cash. Suppose equipment costing ₹500,000 is purchased for cash and depreciated evenly over five years, with no residual value. Annual depreciation of ₹100,000 reduces profit, but it does not require a new ₹100,000 operating payment each year. The original purchase is a separate investing outflow. Adding depreciation back simply removes this non-cash expense from the operating reconciliation; it does not reverse the economic cost of using the equipment.

Operating assets and liabilities create further differences. Increasing receivables can absorb cash relative to recognised revenue, while increasing amounts owed to suppliers can temporarily preserve cash. Customer advances, employee obligations and other balances may also affect the reconciliation. These adjustments explain the timing of receipts and payments, although a favourable cash effect in one period can be followed by settlement in another.

Classification also matters. For non-financial entities, Ind AS 7 classifies interest and dividend receipts as investing cash flows and interest payments as financing cash flows. Income-tax cash flows are generally operating unless specifically identifiable with investing or financing transactions (ICAI, 2025, paras. 31–36). Consequently, comparing total profit with operating cash flow involves more than customer collection. It also reflects which income and expense items belong in other cash-flow categories.

Evidence from accounting research

Dechow et al. (1998) developed a model linking earnings, cash flows and working-capital accruals. Their empirical findings were generally consistent with the proposition that earnings can predict future operating cash flows better than current operating cash flows, with the relationship affected by the operating cash cycle. This provides a reason to examine accruals carefully rather than treating

all differences from cash as weaknesses. Their results concern a broader historical sample and do not establish a specific conclusion about Infosys.

Taken together, the literature suggests an analytical approach: compare the measures, identify the components that separate them, and assess whether those components appear persistent or temporary. A cash-flow ratio provides a starting point for investigation. The explanatory value comes from the reconciliation and supporting disclosures, especially where changes in tax payments or operating balances affect the annual result.

Research Methodology

The study uses a descriptive case-study design based on existing published information. Financial data come from Infosys's FY2024–25 and FY2025–26 annual reports. The FY2024–25 report supplies the FY2023–24 comparative figures, while the later report supplies FY2025–26 and confirms the overlapping FY2024–25 figures. No interviews, surveys or invented observations are used. Although annual reports are primary company documents, analysing their existing figures constitutes secondary-data research.

The unit of analysis is the Infosys consolidated group. All amounts use Indian Accounting Standards and are expressed in ₹ crore; one crore equals ten million rupees. FY2023–24, FY2024–25 and FY2025–26 end on March 31, 2024, 2025 and 2026 respectively. Profit means total consolidated profit after tax, including non-controlling interests, meaning outside shareholders' shares of subsidiaries' profits, because this is the profit used at the start of the consolidated cash-flow reconciliation. Standalone profit and profit attributable only to owners are not substituted.

The principal calculations are the cash-flow–profit gap, obtained by subtracting profit after tax from operating cash flow; operating cash flow as a percentage of profit; net profit margin; and operating cash flow as a percentage of revenue. Annual changes are calculated from consecutive reported amounts. A cumulative ratio divides the sum of operating cash flows by the sum of profits, preserving the relative size of the annual observations.

Two further controls protect comparability. First, the analysis uses the reported net operating cash-flow line rather than headline free-cash-flow figures, which can use a different definition or accounting basis. Second, the starting profit and the cash flow cover the same consolidated group. Comparing group cash flow with only the parent company's profit would introduce a difference unrelated to the question being investigated.

The analysis then reconstructs operating cash flow from the published reconciliation. For readability, smaller non-cash and classification adjustments are grouped, while depreciation and amortisation, tax expense and operating asset and liability movements remain visible. These groupings are arithmetic summaries of disclosed rows. They are not new company-reported measures. The study does not use regression or claim causation: three annual observations support a descriptive comparison, but cannot establish a reliable statistical relationship.

Results and Analysis

The Three-Year Relationship

Table 1 shows that profit increased in both annual comparisons, while operating cash flow followed a less stable path. The cash-flow–profit gap changed from a deficit to a surplus, before narrowing in the final year. The operating-cash-flow-to-profit percentage ranged from 96.05% to 133.44%, a spread of approximately 37.39 percentage points. Therefore, neither the direction nor the size of the annual gap was fully consistent.

Table 1

Reported Results and Calculated Ratios

Measure	FY2023–24	FY2024–25	FY2025–26
Revenue	153,670	162,990	178,650
Total profit after tax	26,248	26,750	29,474
Net operating cash flow	**25,210**	**35,694**	**33,986**
Cash flow less profit	**(1,038)**	**8,944**	**4,512**
Operating cash flow as a percentage of profit	96.05%	133.44%	115.31%
Net profit margin	17.08%	16.41%	16.50%
Operating cash flow as a percentage of revenue	16.41%	21.90%	19.02%

Note. Amounts in ₹ crore except percentages. Parentheses indicate negative amounts. Data from Infosys Limited (2025, pp. 304–305, 311) and Infosys Limited (2026, pp. 318–319, 325). Differences and percentages are the author's calculations using total consolidated profit after tax.

The growth calculations reinforce this finding. Between FY2023–24 and FY2024–25, revenue increased by 6.06% and profit by 1.91%, while operating cash flow increased by 41.59%. In the next year, revenue increased by 9.61% and profit by 10.18%, but operating cash flow decreased by 4.79%. A reader relying on profit growth alone would therefore miss a change in the timing and composition of cash generation.

The margin calculations provide an additional perspective. In FY2024–25, the net profit margin fell from 17.08% to 16.41%, while the operating cash-flow margin increased from 16.41% to 21.90%. These measures therefore gave different signals during the same year. The first describes recognised profit relative to sales, while the second captures operating cash relative to sales after the relevant adjustments. Their divergence reinforces the need to identify why cash improved before concluding that the business became more profitable. In FY2025–26, profit margin recovered slightly while cash-flow margin declined.

Across all three years, total operating cash flow was ₹94,890 crore against total profit of ₹82,472 crore. The cumulative surplus was ₹12,418 crore, and the cumulative cash-flow-to-profit percentage was 115.06%. This provides evidence that operating cash generation exceeded accounting profit over the selected period. However, the aggregate masks annual fluctuations and cannot establish that the same relationship will continue in future years.

Reconciling profit with operating cash flow

Table 2 demonstrates that the difference can be traced through a complete accounting reconciliation. Tax expense is added back because the starting profit is after tax; actual cash taxes, net of refunds, are then deducted separately. Depreciation and amortisation are added back, while the remaining adjustments include both non-cash items and reclassifications. The final total agrees with reported operating cash flow in every year.

Table 2

Reconciliation of Profit to Operating Cash Flow

Reconciliation item	FY2023–24	FY2024–25	FY2025–26
Profit after tax	**26,248**	**26,750**	**29,474**
Add income tax expense	9,740	10,858	10,521
Add depreciation and amortisation	4,678	4,812	4,902
Remaining reconciliation adjustments net	(1,143)	(829)	376
Operating asset and liability movements net	(5,082)	(295)	(2,639)
Cash generated before income tax payments	**34,441**	**41,296**	**42,634**
Deduct cash taxes net of refunds	(9,231)	(5,602)	(8,648)
Net operating cash flow	**25,210**	**35,694**	**33,986**

Note. All amounts in ₹ crore. Parentheses indicate deductions. Data from Infosys Limited (2025, p. 311) and Infosys Limited (2026, p. 325). Grouped rows are the author's calculations. Remaining adjustments include interest and dividend income, finance costs, credit-loss and exchange adjustments, share-based compensation, tax-refund interest, support provisions and the statement's other adjustments.

In FY2023–24, depreciation and amortisation plus the remaining adjustments together added ₹3,535 crore. Tax expense exceeded net cash taxes by ₹509 crore. These positive adjustments were outweighed by ₹5,082 crore absorbed through operating asset and liability movements, producing the ₹1,038 crore shortfall relative to profit. The explanation is therefore visible in the accounts; the shortfall alone does not demonstrate financial distress.

The following year illustrates how the same framework can produce a different outcome. Depreciation and amortisation plus remaining adjustments contributed ₹3,983 crore, operating balance movements absorbed only ₹295 crore, and tax expense exceeded net cash taxes by ₹5,256 crore. Together, these components explain the ₹8,944 crore surplus over profit. In FY2025–26, their corresponding contributions were ₹5,278 crore, negative ₹2,639 crore and positive ₹1,873 crore, producing a smaller surplus of ₹4,512 crore.

Operating assets and liabilities

Table 3 separates the operating balance movements that are grouped in Table 2. Their combined effect improved by ₹4,787 crore in FY2024–25 and worsened by ₹2,344 crore in FY2025–26. These changes help explain why cash-flow growth differed from profit growth. They also show why analysing receivables alone would provide an incomplete account of the movement. Unbilled revenue means revenue recognised for work performed but not yet invoiced.

Table 3

Operating Asset and Liability Adjustments

Cash flow adjustment	FY2023–24	FY2024–25	FY2025–26
Trade receivables and unbilled revenue	(2,667)	(1,769)	(5,177)
Loans and other financial and nonfinancial assets	(1,172)	(1,024)	(2,645)
Trade payables	91	176	(26)
Other financial liabilities, other liabilities and provisions	(1,334)	2,322	5,209
Combined effect	**(5,082)**	**(295)**	**(2,639)**

Note. All amounts in ₹ crore. Parentheses indicate cash absorbed relative to profit. Data from Infosys Limited (2025, p. 311) and Infosys Limited (2026, p. 325); combined effects are the author's calculations. Labels are shortened from the published cash-flow statements. These adjustments are not a simple change in balance-sheet net working capital.

In the final year, receivables and unbilled revenue absorbed ₹3,408 crore more cash than in the preceding year. Other asset categories absorbed an additional ₹1,621 crore, and the trade-payables contribution weakened by ₹202 crore. Against these changes, other liabilities and provisions contributed ₹2,887 crore more, partially offsetting the additional cash absorbed elsewhere. The net result was the ₹2,344 crore deterioration.

A larger negative receivables adjustment does not by itself prove slower customer payments. Business growth, billing schedules, currency movements and changes in the group can affect absolute balances. An investigation of collection efficiency would require additional measures, including receivables ageing and comparable collection-day ratios. The present study identifies the cash-flow effect without attributing it to an unverified operational cause.

Similarly, a positive adjustment from liabilities should not automatically be described as a permanent improvement. It can reflect expenses recognised before settlement or other obligations that will require cash later. The amounts in Table 3 are taken from the cash-flow reconciliation; they are not a simple subtraction of opening from closing balance-sheet working capital. Using the disclosed adjustments avoids confusing cash movements with changes arising from other accounting effects.

Cash taxes and annual changes

Table 4 provides a clear explanation of the final year. Cash generated before income-tax payments increased by ₹1,338 crore. Net cash taxes increased by ₹3,046 crore, which more than absorbed that improvement and reduced operating cash flow by ₹1,708 crore. Thus, the decline in the final cash-flow measure coexisted with an increase in cash generated before tax.

Table 4

Changes in Operating Cash Flow and Net Cash Taxes

Contribution to the change	**FY2024–25 versus FY2023–24**	**FY2025–26 versus FY2024–25**
Increase in cash generated before tax	6,855	1,338
Effect of lower or higher net cash taxes	3,629	(3,046)
Change in net operating cash flow	**10,484**	**(1,708)**

Note. All amounts in ₹ crore. A negative tax contribution means higher cash taxes reduced the change in operating cash flow. Author calculations from Infosys Limited (2025, p. 311) and Infosys Limited (2026, p. 325). This is an arithmetic decomposition, not a causal statistical estimate.

The tax notes specify that the cash-tax amounts are net of refunds (Infosys Limited, 2025, p. 346; Infosys Limited, 2026, p. 361). Therefore, a lower reported payment may reflect refunds as well as changes in gross payments. Tax expense is also affected by accruals, deferred tax and adjustments relating to earlier periods. It should not be treated as the cash paid during the year or as a direct measure of customer demand.

To understand the mechanism, consider another hypothetical example. A business recognises a ₹30 tax expense but pays ₹20 during the year. Starting with after-tax profit, the reconciliation adds back ₹30 and subtracts ₹20, increasing operating cash flow relative to profit by ₹10, before other adjustments. If the remaining liability is paid later, the cash effect shifts into that later period. This illustrates why a change in cash taxes can alter the annual comparison without an equivalent change in the current year's tax expense.

The FY2024–25 increase in operating cash flow similarly combined two effects: higher cash generated before tax and lower net cash taxes. The table separates them without assuming that either will recur. This distinction matters when evaluating the unusually high cash-flow-to-profit percentage in that year. Extrapolating it mechanically would overlook the contribution of tax timing and changes in operating balances.

Discussion

The results answer the research question at two levels. The accounting reasons for the difference were structurally consistent: each year required adjustments for non-cash items, cash-flow classification, operating balances and taxes. Their amounts were not consistent. Consequently, a stable accounting framework generated a changing relationship between annual profit and operating cash flow. Understanding this distinction is more useful than expecting the two totals to move together.

The cumulative surplus supports a limited positive interpretation: over the selected period, the group generated more operating cash than it reported as profit. It does not establish that all revenue was collected promptly, that every accrual was conservative, or that future cash generation is assured. The ratio compares broad aggregates containing several different adjustments. Assessing earnings quality would require a wider examination of recognition policies, estimates, receivable recoverability and the sustainability of cash sources.

The cumulative comparison is also different from asking how much cash remains available at year-end. Operating cash can subsequently finance equipment, acquisitions, dividend payments or share repurchases. Consequently, a business may generate substantial operating cash while its closing cash balance falls. Evaluating that movement would require the investing and financing sections, along with any exchange-rate effect on cash. The present paper keeps that wider question separate so that its conclusion remains tied to the stated comparison between profit and operating cash flow.

The findings also explain why a ratio above 100% should not be treated as a universal target. Depreciation can increase the ratio without improving current trading. A tax refund can increase cash flow without representing new operating revenue. Growing receivables can reduce cash flow while accompanying business expansion. Interpretation therefore depends on the source and persistence of the difference, rather than a threshold applied without context.

For financial planning, the practical implication is to examine both profitability and the timing of obligations. A business can plan for positive earnings yet face uneven cash requirements. For students, the case demonstrates that a financial ratio becomes informative when linked to its underlying transactions. The reconciliation turns a numerical discrepancy into a structured explanation and makes clear which conclusions the available evidence supports.

Limitations

The study covers one company and three years, so its findings cannot be generalised to all businesses or used to establish a long-term forecasting rule. Annual totals conceal within-year fluctuations. Published disclosures aggregate many transactions, limiting the ability to identify individual customer payments or precisely date every accrual reversal. The analysis explains the reported arithmetic, but does not independently audit the underlying transactions.

Reported profit also includes tax effects and items beyond recurring operating performance. No adjusted-profit measure is constructed. Operating cash flow is distinct from free cash flow and from the change in the bank balance, because investing, financing and exchange effects also matter. Extending the analysis across more years, examining quarterly data and comparing similar companies on a consistent accounting basis would strengthen the assessment of persistence.

A useful extension would track whether cash absorbed by receivables in one year is released in later periods. Another would compare cash taxes over a longer horizon, reducing the influence of a particular refund or settlement. These investigations would help distinguish recurring

relationships from temporary fluctuations. They would also test whether the three-year cumulative surplus remains representative when the observation window changes, rather than treating the chosen start and end dates as economically neutral.

Conclusion

Infosys's profit and operating cash flow differed because accrual recognition, non-cash expenses, classification decisions, operating balance movements and tax payments affected them differently. Operating cash flow was below profit in FY2023–24 and above it in the following two years. The cumulative surplus was substantial, but the annual gap was neither constant in direction nor stable in magnitude.

The most revealing result concerns FY2025–26: profit rose while operating cash flow fell, even though cash generated before tax increased. Larger net tax payments explain this final step in the divergence, alongside the earlier effects of operating balance movements. The case therefore supports an integrated reading of the financial statements. Profit describes recognised performance; the cash-flow reconciliation explains how that performance connects to cash during the reporting period.

References

- Dechow, P. M., Kothari, S. P., & Watts, R. L. (1998). The relation between earnings and cash flows. *Journal of Accounting and Economics, 25*(2), 133–168. https://doi.org/10.1016/S0165-4101(98)00020-2
- Infosys Limited. (2025). *Integrated annual report 2024–25*. https://www.infosys.com/investors/reports-filings/annual-report/annual/documents/infosys-ar-25.pdf
- Infosys Limited. (2026). *Integrated annual report 2025–26*. https://www.infosys.com/investors/reports-filings/annual-report/annual/documents/infosys-ar-26.pdf
- Institute of Chartered Accountants of India. (2025). *Indian Accounting Standard (Ind AS) 7: Statement of cash flows*. https://resource.cdn.icai.org/94048indas2025-26-7.pdf
- International Accounting Standards Board. (2018). *Conceptual framework for financial reporting*. IFRS Foundation. https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/