Financial Analysis: RELIANCE

Jotty Financial Analysis

Contents

Financial Analysis: RELIANCE

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Executive Summary

RELIANCE - Comprehensive Financial Analysis

1. Company Overview

Reliance Industries Limited is India's largest private sector conglomerate with diversified operations across: - **Energy** (Oil & Gas, Refining, Petrochemicals) - **Retail** (Reliance Retail - India's largest retailer) - **Digital Services** (Jio - leading telecom operator) - **New Energy** (Green hydrogen, renewable energy initiatives)

Industry Position: Market leader in most verticals with strong competitive moats in telecom and retail sectors.

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2. Financial Performance

Revenue & Profit Trends (Last 5 Years - Crores)

- **Sales**: 125,849 → 129,674 → 122,627 → 137,380 → 127,695
  - Volatile pattern with -7% decline in latest year
- **Operating Profit**: 14,899 → 19,132 → 17,493 → 19,191 → 17,558
  - 8.5% decline YoY despite stable margins
- **Net Profit**: 8,373 → 13,806 → 9,627 → 11,208 → 9,924
  - 11.5% decline YoY; peak in Year 2

Profitability Ratios

Metric	Value	Assessment
ROE	6.61%	**Weak** - Below 15% benchmark
ROCE	7.57%	**Weak** - Below cost of capital
Operating Margin	~13.7%	Moderate
Net Margin	~7.8%	Moderate

Growth Trajectory

- **Revenue CAGR**: ~0.4% (stagnant over 5 years)
- **Profit CAGR**: ~4.3% (modest growth)
- **Stock Performance**: Price at 1,386 vs 52-week high of 1,612 (**-14% from peak**)

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3. Financial Health

Balance Sheet Strength

- **Equity**: 6,335 cr (doubled in latest year - likely stock split effect)
- **Reserves**: 3,08,312 cr (strong growth from 1,93,859 cr - 59% increase over 5 years)
- **Borrowings**: 1,16,881 cr (30% increase over 5 years)

Debt & Liquidity

- **Debt-to-Equity**: ~0.37x (manageable but rising)
- **Trend**: Increasing leverage to fund capital-intensive projects (Jio 5G, green energy)
- **Concern**: Rising debt alongside stagnant revenues

Cash Flow

- Operating profit declining despite stable sales suggests operational challenges

- High capex requirements for new ventures strain free cash flow

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4. Valuation

Metric	Value	Assessment
P/E Ratio	47.2x	**Expensive** - Premium valuation
P/B Ratio	3.36x (Price: 1,386 / Book: 413)	Premium to book value
Market Cap	18,75,736 cr (~$225 billion)	Mega-cap
Dividend Yield	0.40%	**Low** - Not income-focused

Valuation Concern: Trading at 47x earnings with ROE of only 6.61% indicates market is pricing in significant future growth that isn't yet visible in financials.

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5. Investment Thesis

Key Strengths

1. **Diversified Business Model**: Multiple growth engines reduce risk
2. **Market Leadership**: Dominant positions in retail and telecom
3. **Strategic Vision**: Aggressive pivot to green energy and digital platforms
4. **Strong Balance Sheet**: Substantial reserves (3+ lakh crores) provide cushion
5. **Brand Power**: Jio revolutionized telecom; retail expansion continues

Key Risks

1. **Deteriorating Returns**: ROE/ROCE below acceptable thresholds
2. **Stagnant Growth**: Flat revenue growth over 5 years despite market dominance
3. **Rising Leverage**: Debt growing faster than earnings
4. **Expensive Valuation**: 47x P/E not justified by current fundamentals
5. **Execution Risk**: Multiple ambitious projects (new energy, O2C expansion) require flawless execution
6. **Refining Margins**: Vulnerable to crude price volatility and global oversupply

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Investment Recommendation: HOLD / AVOID

Reasoning:

For Existing Investors: **HOLD** - The company has long-term strategic value, but current financials don't support the valuation. Wait for improvement in ROE/ROCE and revenue acceleration.

For New Investors: **AVOID AT CURRENT LEVELS** - **Why**: Paying 47x earnings for 6.61% ROE is poor capital allocation - **Better Entry Point**: Target P/E of 30-35x or 900-1,000 per share - **Watch For**: - Stabilization of operating margins - Monetization of Jio platforms - Improved capital efficiency (ROE >12%)

Bottom Line:

Reliance is a **quality company at an expensive price**. The stock is pricing in aggressive growth that hasn't materialized yet. The combination of declining profitability metrics, stagnant revenue, and premium valuation creates unfavorable risk-reward. Long-term believers should wait for better entry points or evidence of improving returns on capital.

Fair Value Estimate: 950-1,050 (30-35x P/E with 10% growth assumptions)
Downside Risk: 25-30% from current levels if growth disappoints

Detailed Financial Data

1. RELIANCE (RELIANCE)

Key Ratios

Ratio	Value
Book Value	413
Current Price	1,386
Dividend Yield	0.40
Face Value	10.0
High / Low	1,612
Market Cap	18,75,736
ROCE	7.57
ROE	6.61
Stock P/E	47.2

Profit & Loss Statement

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
Sales+	125,849	129,674	122,627	137,380	127,695
Expenses+	110,950	110,542	105,134	118,189	110,137
Operating Profit	14,899	19,132	17,493	19,191	17,558
OPM %	12%	15%	14%	14%	14%
Other Income+	2,689	2,750	2,728	2,934	2,969
Interest	3,349	3,752	3,596	3,239	2,982
Depreciation	2,529	3,779	3,883	4,384	4,567
Profit before tax	11,710	14,351	12,742	14,502	12,978
Tax %	28%	4%	24%	23%	24%
Net Profit+	8,373	13,806	9,627	11,208	9,924
EPS in Rs	6.19	10.20	7.11	8.28	7.33

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
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