

# Financial Analysis: RELIANCE

Jotty Financial Analysis

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## Financial Analysis: RELIANCE

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### Executive Summary

## RELIANCE FINANCIAL ANALYSIS

### 1. COMPANY OVERVIEW

Reliance Industries is a diversified conglomerate operating across multiple sectors including oil & gas, petrochemicals, refining, retail, and telecommunications. The company holds a dominant position in the Indian market with significant market capitalization of 18.76 lakh crores.

## 2. FINANCIAL PERFORMANCE

### Revenue and Profit Trends

- **Revenue ( Cr):** 125,849 → 129,674 → 122,627 → 137,380 → 127,695
  - Volatile trajectory with 5% decline in latest period
  - Peak revenue of 137,380 Cr achieved in FY4
- **Operating Profit ( Cr):** 14,899 → 19,132 → 17,493 → 19,191 → 17,558
  - Operating margins relatively stable around 13-15%
  - Recent decline of 8.5% in latest year
- **Net Profit ( Cr):** 8,373 → 13,806 → 9,627 → 11,208 → 9,924
  - Significant volatility in net profitability
  - 11% decline in latest period

### Profitability Ratios

- **ROE:** 6.61% - **Weak** for a large-cap company
- **ROCE:** 7.57% - **Below industry standards**, indicating inefficient capital deployment
- **Operating Margin:** ~13.7% (latest year)
- **Net Profit Margin:** ~7.8% (latest year)

### Growth Analysis

- Revenue CAGR: Modest, with recent contraction
- Profit growth: Highly inconsistent and declining trend
- Stock performance: Current price 1,386 vs 52-week high 1,612 (14% below peak)

## 3. FINANCIAL HEALTH

### Balance Sheet Strength

- **Equity Capital:** Doubled from 3,251 Cr to 6,335 Cr (likely due to stock split)
- **Reserves:** Strong growth from 193,859 Cr to 308,312 Cr (+59%)
- **Book Value:** 413 per share

### Debt & Liquidity

- **Borrowings:** Increased from 89,968 Cr to 116,881 Cr (+30%)
- **Debt trend:** Continuous upward trajectory indicates aggressive expansion or capital intensity
- **Debt-to-Equity:** Approximately 0.37x (manageable but rising)

### Cash Flow

- Operating cash generation appears moderate given the low ROCE
- Heavy capital requirements evident from rising debt levels

## 4. VALUATION

- **P/E Ratio:** 47.2x - **Significantly overvalued** compared to earnings

- **P/B Ratio:** 3.36x (Price 1,386 / Book Value 413) - Premium to book value
- **Market Cap:** 18,75,736 Cr (among India's largest companies)
- **Dividend Yield:** 0.40% - **Negligible income for investors**

**Valuation Verdict:** Stock trades at steep premium with weak fundamentals to justify pricing

## 5. INVESTMENT THESIS

### Key Strengths

**Market Leadership:** Dominant conglomerate with diversified business portfolio

**Strong Reserves:** Healthy reserve accumulation showing retained earnings growth

**Scale:** Massive market cap provides stability and liquidity

### Key Risks

**Poor Capital Efficiency:** ROE (6.61%) and ROCE (7.57%) well below cost of capital

**Declining Profitability:** Net profit declining despite scale

**Expensive Valuation:** P/E of 47.2x unjustified by fundamentals

**Rising Debt:** 30% increase in borrowings raises financial risk

**Revenue Volatility:** Inconsistent top-line growth pattern

**Low Dividend Yield:** 0.40% offers minimal income return

### Investment Recommendation: AVOID / SELL

**Reasoning:** 1. **Valuation Disconnect:** Trading at 47x earnings with ROE of just 6.61% represents poor value. The company is not generating sufficient returns on shareholder equity to justify the premium.

2. **Deteriorating Fundamentals:** Despite being a blue-chip name, recent trends show declining profits, contracting revenues, and weak capital efficiency.

3. **Opportunity Cost:** With ROCE at 7.57%, the company barely beats risk-free returns while investors pay 47x earnings. Better opportunities exist in the market.

4. **Better Entry Points:** Stock has corrected 14% from highs but fundamentals suggest further downside risk. Wait for P/E compression to 25-30x or improvement in ROE/ROCE metrics.

**Target Price:** 950-1,050 (20-25x earnings, aligning valuation with capital efficiency)

**Alternative:** If already holding, consider partial profit booking and reallocation to companies with ROE >15% and reasonable valuations.

### 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
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