

Financial Analysis: RELIANCE

Jotty Financial Analysis

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Financial Analysis: RELIANCE

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Executive Summary

RELIANCE INDUSTRIES - FINANCIAL ANALYSIS

1. Company Overview

Reliance Industries is India's largest conglomerate with diversified operations across energy (refining, petrochemicals), retail, telecommunications (Jio), and digital services. The company holds a dominant position in multiple sectors with integrated business model advantages.

2. Financial Performance

Revenue & Profit Trends (Crores, last 5 years): - Sales: 125,849 → 129,674 → 122,627 → 137,380 → 127,695 - Net Profit: 8,373 → 13,806 → 9,627 → 11,208 → 9,924 - **Trend:** Volatile revenue with declining trajectory recently; profits peaked in year 2 but have declined 11% from year 4 to year 5

Profitability Ratios: - **ROE:** 6.61% (Low - indicates weak shareholder returns) - **ROCE:** 7.57% (Below cost of capital - concerning) - **Operating Margin:** ~13.7% (Year 5: 17,558/127,695) - **Net Margin:** ~7.8% (compressed margins)

Growth Analysis: - Revenue CAGR: ~0.4% (essentially flat over 5 years) - Profit: -15.5% decline from peak to latest year - Stock performance: Trading below 52-week high (1,386 vs 1,612)

3. Financial Health

Balance Sheet Strength: - Equity base doubled (3,232 Cr → 6,335 Cr) - likely stock split - Reserves growing: 193,859 Cr → 308,312 Cr (+59%) - Book Value: 413 per share

Debt & Liquidity: - **Borrowings:** 89,968 Cr → 116,881 Cr (+30% increase) - Debt-to-Equity rising - indicates higher leverage - **Concern:** Debt growing faster than profits

Cash Flow: - Data unavailable, but likely capital-intensive given borrowing trends

4. Valuation Metrics

- **P/E Ratio:** 47.2x (Significantly overvalued vs. earnings)
- **P/B Ratio:** 3.36x (1,386 / 413) - trading at premium to book value
- **Market Cap:** 18,75,736 Crores (~\$225 billion)
- **Dividend Yield:** 0.40% (Negligible income for investors)

Valuation Assessment: Stock appears **expensive** relative to current earnings and growth profile.

5. Investment Thesis

Key Strengths

- Dominant market position across multiple sectors
- Strong reserve base (3.08 lakh Cr)
- Brand equity and integrated business model
- Long-term digital/retail growth potential

Key Risks

- **Poor profitability:** ROE (6.61%) and ROCE (7.57%) below acceptable thresholds
- **Stagnant growth:** Flat revenue, declining profits
- **Rising debt:** Borrowings up 30% with weak returns
- **Expensive valuation:** 47.2x P/E unsustainable given fundamentals
- **Margin pressure:** Operating margins declining
- **Execution concerns:** Recent years show deteriorating performance

Investment Recommendation: **AVOID / SELL**

Rationale: 1. At 47.2x P/E with 6.61% ROE, the stock is trading on past reputation rather than current fundamentals 2. Capital is being deployed inefficiently (ROCE < 8%) 3. Profit declining despite increased leverage signals operational challenges 4. Better risk-reward opportunities exist elsewhere 5. Even long-term investors should wait for better entry points (sub-35x P/E) or improved operational metrics

Fair Value Estimate: 900-1,100 (30-35x normalized earnings), suggesting **25-35% downside risk** from current levels.

Hold Only If: You're a long-term believer in the Jio/Retail transformation story and can tolerate 3-5 year holding periods with potential near-term underperformance.

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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