

# Financial Analysis: RELIANCE, TCS

Jotty Financial Analysis

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## Financial Analysis: RELIANCE, TCS

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### Executive Summary

## Financial Analysis Report

### RELIANCE (REL)

#### 1. Company Overview

Reliance is a diversified conglomerate with operations across energy, petrochemicals, retail, and telecommunications sectors. It holds a dominant position in Indian markets.

## 2. Financial Performance

**Revenue & Profit Trends:** - Sales: 125,849 → 127,695 Cr (5-year view shows volatility) - Net Profit: 8,373 → 9,924 Cr (18.5% growth from base, but peaked at 13,806 Cr mid-period)

**Profitability Ratios:** - ROE: 6.61% (concerningly low for a large-cap) - ROCE: 7.57% (below inflation, indicates capital inefficiency) - Operating margins: ~12-15% range

## 3. Financial Health

**Balance Sheet:** - Equity doubled ( 3,232 → 6,335 Cr) - possible rights issue/split - Reserves grew steadily: 193,859 → 308,312 Cr - **Borrowings increased:** 89,968 → 116,881 Cr (+30%) - rising leverage

**Concerns:** Increasing debt load with subpar returns on capital

## 4. Valuation

- P/E: 47.2 (severely overvalued relative to earnings)
- P/B: 3.35× (Price 1,386 / Book 413)
- Market Cap: 18.75 lakh Cr
- Dividend Yield: 0.40% (negligible income)
- Stock traded 52W high of 1,612 (currently -14% below)

## 5. Investment Thesis

**Strengths:** - Diversified business model - Strong reserves base - Scale and market dominance

**Key Risks:** - **Extremely poor capital efficiency** (6-7% returns) - **Valuation disconnect:** 47× PE with single-digit ROE - Rising debt with stagnant profitability - Inconsistent earnings trajectory

**Recommendation: AVOID** The valuation (47× PE) is unjustifiable given 6.61% ROE. Investors are paying premium multiples for below-par returns. The company destroys shareholder value at current return rates.

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## TCS (Tata Consultancy Services)

### 1. Company Overview

TCS is India's largest IT services company, providing consulting, software development, and digital transformation services globally.

### 2. Financial Performance

**Revenue & Profit Trends:** - Sales: 49,275 → 50,844 Cr (3.2% CAGR - modest growth) - Net Profit: 10,659 → 10,753 Cr (0.9% growth - essentially flat)

**Profitability Ratios:** - **ROE: 65.0%** (exceptional capital efficiency) - **ROCE: 78.4%** (outstanding operating returns) - Operating margins: ~26-28% (industry-leading)

### 3. Financial Health

**Balance Sheet:** - Asset-light model: Minimal equity ( 196 Cr maintained) - Reserves surged: 43,856 → 75,675 Cr (+73%) - **Negligible debt:** 115 → 225 Cr (virtually debt-free)

**Strengths:** Fortress balance sheet with cash-generative operations

### 4. Valuation

- P/E: 23.4× (reasonable for quality)
- P/B: 13.5× (Price 3,162 / Book 235)
- Market Cap: 11.44 lakh Cr
- Dividend Yield: 1.90% (moderate income)
- Stock at 3,162 vs high of 4,161 (-24% correction)

### 5. Investment Thesis

**Strengths:** - **Best-in-class profitability** (65-78% returns) - Zero debt with strong cash generation - Consistent dividend payer - Defensive business model - 24% correction from highs provides entry opportunity

**Key Risks:** - Revenue growth stagnation (<4% CAGR) - Earnings flat-lined last 5 years - IT sector headwinds (discretionary spending cuts) - High P/B suggests limited margin of safety

**Recommendation: HOLD/BUY ON DIP** At 23.4× PE with 65% ROE, TCS offers quality at reasonable price post-correction. The company generates exceptional returns on capital with zero leverage risk. However, growth concerns warrant accumulation only at attractive valuations (below 3,000 preferred).

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### Comparative Summary

Metric	Reliance	TCS
ROE	6.61%	65.0%
ROCE	7.57%	78.4%
P/E	47.2×	23.4×
Debt	High & Rising	Minimal
Verdict	<b>AVOID</b>	<b>HOLD/BUY</b>

**TCS demonstrates superior capital efficiency and financial discipline, while Reliance trades at irrational valuations given poor returns.**

### 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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## 2. TCS (TCS)

### Key Ratios

Ratio	Value
Book Value	235
Current Price	3,162
Dividend Yield	1.90
Face Value	1.00
High / Low	4,161
Market Cap	11,44,220
ROCE	78.4
ROE	65.0
Stock P/E	23.4

## Profit & Loss Statement

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
Sales+	49,275	49,780	49,862	50,165	50,844
Expenses+	35,759	36,910	36,726	36,363	36,481
Operating Profit	13,516	12,870	13,136	13,802	14,363
OPM %	27%	26%	26%	28%	28%
Other Income+	1,558	1,433	1,903	1,755	851
Interest	136	250	138	134	204
Depreciation	996	1,008	969	979	964
Profit before tax	13,942	13,045	13,932	14,444	14,046
Tax %	24%	25%	25%	24%	23%
Net Profit+	10,659	9,800	10,484	10,929	10,753
EPS in Rs	29.13	26.78	28.65	29.87	29.72
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