

# Financial Analysis: RELIANCE

Jotty Financial Analysis

## Contents

<b>Financial Analysis: RELIANCE</b>	<b>1</b>
Executive Summary . . . . .	1
<b>RELIANCE - Financial Analysis Summary</b>	<b>1</b>
1. Company Overview . . . . .	1
2. Financial Performance . . . . .	2
Revenue & Profit Trends ( Crores) . . . . .	2
Profitability Ratios . . . . .	2
Growth Analysis . . . . .	2
3. Financial Health . . . . .	2
Balance Sheet Strength . . . . .	2
Debt & Liquidity . . . . .	2
Cash Flow . . . . .	2
4. Valuation . . . . .	2
5. Investment Thesis . . . . .	3
<b>Key Strengths</b> . . . . .	3
<b>Key Risks</b> . . . . .	3
<b>Investment Recommendation</b> . . . . .	3
Detailed Financial Data . . . . .	4
1. RELIANCE (RELIANCE) . . . . .	4

## Financial Analysis: RELIANCE

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### Executive Summary

### RELIANCE - Financial Analysis Summary

#### 1. Company Overview

**Reliance Industries Limited** is India's largest conglomerate with diversified operations across:  
- **Energy:** Oil & gas, petrochemicals, refining - **Retail:** Leading retail chain in India - **Telecom:** Jio (India's largest telecom operator) - **Digital Services:** Growing digital ecosystem

**Industry Position:** Market leader with 18.76 lakh crore market capitalization, making it one of India's most valuable companies.

## 2. Financial Performance

### Revenue & Profit Trends ( Crores)

- **Sales:** 1,25,849 → 1,27,695 (5-year period)
  - Peaked at 1,37,380, showing volatility
  - Recent decline to 1,27,695 indicates headwinds
- **Net Profit:** 8,373 → 9,924 (+18.5%)
  - Peaked at 13,806, then declined significantly
  - Shows recovery trend but below peak levels

### Profitability Ratios

Metric	Value	Assessment
<b>ROE</b>	6.61%	<b>Poor</b> - Below benchmark (15%+)
<b>ROCE</b>	7.57%	<b>Weak</b> - Inefficient capital use
<b>Operating Margin</b>	~13.7%	Moderate, but declining
<b>Net Margin</b>	~7.8%	Compressed margins

### Growth Analysis

- **Stock Price:** 1,386 (Range: 1,612 high/low) - **Volatile**
  - **Profit Growth:** Inconsistent, recovering from decline
  - **Operating Profit:** 14,899 → 17,558 (+17.8%)
- 

## 3. Financial Health

### Balance Sheet Strength

**Equity Base:** - Reserves: 3.08 lakh crores (strong growth from 1.94 lakh crores) - Book Value: 413/share - **Price-to-Book:** 3.36x (trading at premium to book value)

### Debt & Liquidity

- **Borrowings:** 89,968 → 1,16,881 crores (+30% increase)
- **Debt-to-Equity:** ~0.37x (manageable but rising)
- **Concern:** Increasing debt levels during uncertain profit phase

### Cash Flow

- Operating profit stable ( 17,558 crores)
  - Cash generation adequate but margin pressure visible
- 

## 4. Valuation

Metric	Value	Interpretation
<b>P/E Ratio</b>	47.2x	<b>Expensive</b> - Well above market avg (~20-25x)
<b>P/B Ratio</b>	3.36x	Premium valuation
<b>Market Cap</b>	18.76 lakh cr	Mega-cap stock
<b>Dividend Yield</b>	0.40%	<b>Very Low</b> - Poor income stock

**Valuation Verdict: OVERVALUED** - High P/E with low ROE indicates premium pricing without corresponding profitability.

## 5. Investment Thesis

### Key Strengths

1. **Market Leadership:** Dominant positions in retail, telecom, and energy
2. **Strong Reserves:** 3.08 lakh crores providing financial cushion
3. **Diversification:** Multiple revenue streams reduce concentration risk
4. **Brand Power:** India's most recognized corporate brand

### Key Risks

1. **Poor Returns:** ROE (6.61%) and ROCE (7.57%) well below cost of capital
2. **Expensive Valuation:** P/E of 47.2x unjustified by profitability metrics
3. **Rising Debt:** 30% increase in borrowings amid profit volatility
4. **Margin Pressure:** Declining net margins indicate competitive/cost pressures
5. **Earnings Volatility:** Profit swung from 13,806 cr to 9,627 cr
6. **Poor Dividend:** 0.40% yield offers no income attraction

### Investment Recommendation

#### AVOID / SELL

**Reasoning:** - **Value Trap:** Despite being a quality business, the stock is trading at **47x earnings with only 6.6% ROE** - fundamentally inconsistent - **Risk-Reward Unfavorable:** High valuation leaves limited upside, significant downside risk if earnings disappoint - **Better Alternatives Exist:** Investors can find companies with superior ROE/ROCE at lower valuations - **Not an Income Stock:** 0.40% dividend yield fails to compensate for valuation risk

**Action:** - **Current Holders:** Book profits or reduce position size - **Potential Buyers:** Wait for significant correction (30-40%) or improvement in ROE/ROCE - **Fair Value Estimate:** 900-1,000 (assuming 30x P/E, which is still premium)

**Only Consider If:** You're taking a 5-10 year view betting on Jio/Retail monetization improvement AND can tolerate 20-30% volatility.

**Bottom Line:** Quality company, but **wrong price**. Valuation doesn't reflect the poor capital efficiency metrics.

## 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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