

Financial Analysis: RELIANCE, TCS

Jotty Financial Analysis

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Financial Analysis: RELIANCE, TCS

Generated: 2026-01-26 19:08:13 Analysis Type: Comprehensive

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.

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).

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	AVOID	HOLD/BUY

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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