

# Financial Analysis: RELIANCE, TCS

Jotty Financial Analysis

## Contents

<b>Financial Analysis: RELIANCE, TCS</b>	<b>1</b>
Executive Summary . . . . .	1
<b>FINANCIAL ANALYSIS: RELIANCE vs TCS</b>	<b>1</b>
1. COMPANY OVERVIEW . . . . .	1
2. FINANCIAL PERFORMANCE . . . . .	2
RELIANCE . . . . .	2
TCS . . . . .	2
3. FINANCIAL HEALTH . . . . .	2
RELIANCE . . . . .	2
TCS . . . . .	2
4. VALUATION . . . . .	3
RELIANCE . . . . .	3
TCS . . . . .	3
5. INVESTMENT THESIS . . . . .	3
RELIANCE . . . . .	3
TCS . . . . .	4
COMPARATIVE CONCLUSION . . . . .	4
Detailed Financial Data . . . . .	4
1. RELIANCE (RELIANCE) . . . . .	4
2. TCS (TCS) . . . . .	5

## Financial Analysis: RELIANCE, TCS

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### Executive Summary

I'll provide a comprehensive financial analysis for both RELIANCE and TCS based on the financial data provided.

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## FINANCIAL ANALYSIS: RELIANCE vs TCS

### 1. COMPANY OVERVIEW

**RELIANCE:** A diversified conglomerate with operations across energy, petrochemicals, retail, and telecommunications sectors. One of India's largest companies by market capitalization.

**TCS (Tata Consultancy Services):** India's leading IT services and consulting firm, operating in the technology sector with global operations.

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## 2. FINANCIAL PERFORMANCE

### RELIANCE

**Revenue Trends:** - Sales show volatility: 125,849 → 129,674 → 122,627 → 137,380 → 127,695 Cr - 5-year trend shows cyclical pattern with recent decline (-7% YoY)

**Profitability:** - **ROE:** 6.61% (weak - indicates poor shareholder returns) - **ROCE:** 7.57% (very low - capital deployed inefficiently) - Operating margins: ~13-15% range - Net profit volatility: 8,373 → 13,806 → 9,627 → 11,208 → 9,924 Cr

**Growth Rates:** - Inconsistent profit growth with recent decline - Stock trading well below 52-week high (1,386 vs 1,612)

### TCS

**Revenue Trends:** - Stable growth: 49,275 → 49,780 → 49,862 → 50,165 → 50,844 Cr - Consistent ~1-3% growth trajectory

**Profitability:** - **ROE:** 65.0% (exceptional - highly efficient use of equity) - **ROCE:** 78.4% (outstanding - superior capital efficiency) - Operating margins: ~26-28% (consistent and strong) - Net profit: 10,659 → 9,800 → 10,484 → 10,929 → 10,753 Cr (relatively stable)

**Growth Rates:** - Steady operational performance - Stock at 3,162 vs high of 4,161 (24% below peak)

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## 3. FINANCIAL HEALTH

### RELIANCE

**Balance Sheet Strength:** - Equity base: 3.14 lakh Cr (significant dilution noted in recent year) - Reserves growing: 1.94 lakh → 3.08 lakh Cr

**Debt Levels:** - High borrowings: 89,968 → 1,16,881 Cr (+30% increase) - **Debt-to-Equity ratio:** ~0.36 (manageable but rising) - Concerning leverage trend given weak returns

**Cash Flow:** Not provided, but high capex business model typical for conglomerate

### TCS

**Balance Sheet Strength:** - Strong equity base relative to operations - Reserves: 43,856 → 75,675 Cr (robust growth)

**Debt Levels:** - Virtually debt-free: 115 → 225 Cr (negligible) - **Debt-to-Equity ratio:** ~0.003 (pristine balance sheet) - Asset-light business model

**Cash Flow:** Asset-light model typically generates strong free cash flow

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## 4. VALUATION

### RELIANCE

- **Current Price:** 1,386
- **Book Value:** 413
- **P/B Ratio:** 3.36x
- **P/E Ratio:** 47.2x (extremely expensive)
- **Market Cap:** 18,75,736 Cr
- **Dividend Yield:** 0.40% (negligible income)

**Valuation Assessment:** **SIGNIFICANTLY OVERVALUED** - Trading at 47x earnings with 6.6% ROE is unjustifiable - P/E should be <15x for such low returns - Price-to-book of 3.36x excessive given poor ROE

### TCS

- **Current Price:** 3,162
- **Book Value:** 235
- **P/B Ratio:** 13.5x
- **P/E Ratio:** 23.4x
- **Market Cap:** 11,44,220 Cr
- **Dividend Yield:** 1.90% (modest income)

**Valuation Assessment:** **REASONABLY VALUED** - P/E of 23.4x justified by 65% ROE and quality - Premium valuation warranted for consistent performer - Dividend yield provides some income cushion

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## 5. INVESTMENT THESIS

### RELIANCE

**Key Strengths:** - Diversified business model reduces concentration risk - Large scale and market leadership in multiple sectors - Growing reserves indicate wealth creation over time

**Key Risks:** - **Alarmingly low ROE/ROCE** - capital deployed unproductively - **High valuation** (47x P/E) completely disconnected from fundamentals - Increasing debt burden while returns deteriorate - Revenue and profit volatility - No meaningful dividend income

**Investment Recommendation:** **AVOID / SELL**

**Reasoning:** Despite being a household name, RELIANCE presents poor risk-reward at current levels. A 47x P/E multiple combined with 6.6% ROE is a value trap. The company generates barely acceptable returns on capital while trading at growth stock valuations. The increasing debt load and profit volatility add further concerns. **Fair value would be 400-600** based on book value and returns profile—current price offers 60-70% downside risk.

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## TCS

**Key Strengths:** - Outstanding capital efficiency (65% ROE, 78% ROCE) - Debt-free balance sheet provides financial flexibility - Consistent revenue growth and stable margins - Asset-light, cash-generative business model - Market leader in attractive IT services sector

**Key Risks:** - Trading 24% below 52-week high indicates market concerns - Recent profit decline (10,929 → 10,753 Cr) - High P/B ratio (13.5x) limits margin of safety - Global IT spending cyclical - Currency fluctuation exposure

**Investment Recommendation:** **BUY** on dips / **HOLD**

**Reasoning:** TCS represents quality investing at reasonable valuation. The 65% ROE and 78% ROCE demonstrate exceptional management quality and competitive moats. While the 23.4x P/E appears elevated, it's justified for a company converting equity into returns at this rate. The debt-free balance sheet and 1.9% dividend yield provide downside protection. **Current correction from highs offers entry opportunity**—accumulate between 2,900-3,200 for long-term wealth creation.

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## COMPARATIVE CONCLUSION

Metric	RELIANCE	TCS	Winner
ROE	6.61%	65.0%	<b>TCS</b>
ROCE	7.57%	78.4%	<b>TCS</b>
P/E Ratio	47.2x	23.4x	<b>TCS</b>
Debt Level	High & Rising	Negligible	<b>TCS</b>
Profit Trend	Volatile	Stable	<b>TCS</b>
Valuation	Overvalued	Fair	<b>TCS</b>

**Bottom Line:** TCS is the clear superior investment—better returns, stronger balance sheet, more reasonable valuation, and consistent performance. RELIANCE should be avoided until valuation corrects significantly or operational performance improves dramatically.

## Detailed Financial Data

### 1. RELIANCE (RELIANCE)

#### Key Ratios

Ratio	Value
Book Value	413
Current Price	1,386
Dividend Yield	0.40

Ratio	Value
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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