

Financial Analysis: RELIANCE

Jotty Financial Analysis

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Financial Analysis: RELIANCE

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Executive Summary

RELIANCE Financial Analysis Summary

1. Company Overview

Reliance Industries Limited is one of India's largest conglomerates with diversified operations across: - **Energy (Oil & Gas)**: Refining and petrochemicals - **Retail**: Consumer goods and e-commerce - **Telecommunications**: Jio digital services - **Industry Position**: Market leader with 18.76 lakh crore market capitalization

2. Financial Performance

Revenue & Profit Trends (Cr, Last 5 Years)

- **Sales:** 125,849 → 127,695 (modest 1.5% growth, volatile trajectory)
- **Operating Profit:** 14,899 → 17,558 (+17.8%)
- **Net Profit:** 8,373 → 9,924 (+18.5%)

Profitability Ratios

- **ROE:** 6.61% *Below industry standards (typically 12-15%)*
- **ROCE:** 7.57% *Indicates poor capital efficiency*
- **Operating Margin:** ~13-14% (stable but unspectacular)
- **Net Margin:** ~7-8%

Growth Analysis

- Revenue growth: **Stagnant** (fluctuating, no clear uptrend)
- Profit growth: **18.5%** over 5 years (~3.5% CAGR)
- Stock performance: Currently at 1,386 vs 52-week high of 1,612 (-14%)

3. Financial Health

Balance Sheet Strength

- **Equity:** 3.23K Cr → 6.34K Cr (doubling suggests capital restructuring)
- **Reserves:** Strong growth from 1.94L Cr → 3.08L Cr (+59%)
- **Book Value:** 413/share

Debt & Liquidity

- **Borrowings:** 89,968 Cr → 1,16,881 Cr (+30% increase)
- **Debt-to-Equity:** ~0.37 (manageable but rising trend concerning)
- Rising debt while returns remain low signals capital allocation concerns

Cash Flow

- Operating profits stable, but insufficient data to assess free cash flow quality

4. Valuation

Metric	Value	Assessment
P/E Ratio	47.2	Severely overvalued (industry avg: 15-25)
P/B Ratio	3.36	Premium valuation
Market Cap	18.76L Cr	Large-cap stability
Dividend Yield	0.40%	Negligible income

Valuation Concerns: Trading at 47x earnings with single-digit ROE is a red flag.

5. Investment Thesis

Key Strengths

1. **Diversified Business Model:** Reduces concentration risk
2. **Strong Market Position:** Brand value and scale advantages
3. **Growing Reserves:** Balance sheet equity improving
4. **Stable Operating Margins:** Consistent profitability

Key Risks

1. **Poor Capital Efficiency:** ROE/ROCE below 8% unacceptable for 47 P/E
2. **Valuation Bubble:** Stock price disconnected from fundamentals
3. **Revenue Stagnation:** Flat top-line growth over 5 years
4. **Rising Debt:** 30% borrowing increase with mediocre returns
5. **Minimal Dividend:** 0.4% yield offers no income cushion
6. **Momentum Loss:** Trading 14% below 52-week high

Investment Recommendation: AVOID / SELL

Rationale: - **Overvalued:** P/E of 47.2 with 6.61% ROE is fundamentally unjustifiable - **Value Trap:** Low returns on capital indicate management isn't creating shareholder value - **Better Alternatives:** Capital can earn higher risk-adjusted returns elsewhere - **Fair Value Estimate:** 800-900 (assuming 30-35 P/E with improvement)

Target Investors: - **Not suitable for:** Value investors, income seekers, or quality-focused portfolios - **Only for:** Brand/momentun traders with strict stop-losses

Action: Wait for 35-40% correction or significant ROE improvement before considering entry.

Analysis based on 5-year historical data. Current price suggests market is pricing in aggressive future growth that fundamentals don't yet support.

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

Ratio	Value
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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