

Financial Analysis: RELIANCE, TCS

Jotty Financial Analysis

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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.

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.

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)

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

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

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.

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 cyclicality - 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.

COMPARATIVE CONCLUSION

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

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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