

Financial Analysis: RELIANCE, TCS

Jotty Financial Analysis

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Financial Analysis: RELIANCE, TCS

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Executive Summary

Financial Analysis Report

1. RELIANCE - Company Overview

Business Model: Diversified conglomerate operating across energy, petrochemicals, retail, and telecommunications sectors.

Industry Position: India's largest private sector company by market capitalization (18,75,736 Cr).

2. Financial Performance

Revenue & Profit Trends

- **Sales:** Fluctuating pattern - 1,25,849 → 1,29,674 → 1,22,627 → 1,37,380 → 1,27,695 Cr
- **Operating Profit:** Relatively stable 14,899 → 17,558 Cr (volatile trajectory)
- **Net Profit:** Highly volatile - 8,373 → 13,806 → 9,627 → 11,208 → 9,924 Cr

Profitability Ratios

- **ROE:** 6.61% (concerning - below inflation)
- **ROCE:** 7.57% (low capital efficiency)
- **Operating Margin:** ~13-14% (declining trend)
- **Net Margin:** ~7-8% (inconsistent)

Growth Metrics

- Revenue growth: Flat to negative (~1.5% decline over period)
 - Profit growth: Declining (-11% net profit drop latest year)
 - Stock trading at 1,386 vs high of 1,612 (14% below peak)
-

3. Financial Health

Balance Sheet Strength

- **Equity:** Growing from 1,97,091 Cr → 3,14,647 Cr (strong reserves buildup)
- **Book Value:** 413 per share

Debt & Liquidity

- **Borrowings:** Rising trend 89,968 → 1,16,881 Cr (+30% increase)
- **Debt-to-Equity:** ~0.37 (manageable but increasing)
- Debt growing faster than profitability

Cash Flow

- Strong reserve accumulation suggests positive operational cash generation
 - Capital intensive expansions driving borrowings
-

4. Valuation

- **P/E Ratio:** 47.2x (significantly overvalued vs earnings)
- **P/B Ratio:** 3.36x (premium to book value)
- **Market Cap:** 18,75,736 Cr
- **Dividend Yield:** 0.40% (minimal income return)

Valuation Assessment: Expensive relative to earnings quality and growth trajectory

5. Investment Thesis

Key Strengths

1. Market leadership and brand dominance
2. Diversified business portfolio
3. Strong balance sheet with growing reserves
4. Scale advantages across multiple sectors

Key Risks

1. **Very low returns:** ROE (6.61%) and ROCE (7.57%) below cost of capital
2. **Stagnant revenue:** Flat sales growth over 5 years
3. **Declining profitability:** Net profit down 11% YoY
4. **Rising leverage:** Debt up 30% while profits decline
5. **Extreme valuation:** P/E of 47x unjustified by fundamentals
6. **Minimal dividend income:** 0.40% yield

Investment Recommendation: AVOID / SELL

Reasoning: Despite being India's largest company, Reliance shows deteriorating fundamentals:
- Returns (ROE/ROCE) are unacceptably low for a company trading at 47x earnings - Zero revenue growth with declining margins indicates competitive/operational challenges - At 1,386, the stock prices in growth that isn't materializing - Fair value estimate: 600-800 based on current earnings power (15-20x P/E justified)

Better suited for: Long-term contrarian investors betting on business turnaround. Current shareholders should consider partial profit-booking.

TCS - Financial Analysis

1. Company Overview

Business Model: Global IT services, consulting, and business solutions provider.

Industry Position: India's largest IT services company (Market Cap: 11,44,220 Cr).

2. Financial Performance

Revenue & Profit Trends

- **Sales:** Steady growth 49,275 → 50,844 Cr (+3.2%)
- **Operating Profit:** Stable 13,516 → 14,363 Cr (+6.3%)
- **Net Profit:** Resilient 10,659 → 10,753 Cr (+0.9%)

Profitability Ratios

- **ROE:** 65.0% (exceptional capital efficiency)
- **ROCE:** 78.4% (outstanding asset utilization)
- **Operating Margin:** ~27-28% (industry-leading)
- **Net Margin:** ~21% (stable, high-quality earnings)

Growth Metrics

- Revenue CAGR: ~3% (modest but consistent)
 - Profit stability with minor fluctuations
 - Stock at 3,162 vs high 4,161 (24% correction provides opportunity)
-

3. Financial Health

Balance Sheet Strength

- **Equity:** 44,052 → 75,866 Cr (72% growth in shareholders' equity)
- **Book Value:** 235 per share
- **Reserves:** Strong accumulation 43,856 → 75,675 Cr

Debt & Liquidity

- **Borrowings:** Negligible 115-273 Cr (virtually debt-free)
- **Net Cash Position:** Likely cash-rich given minimal debt
- Fortress balance sheet

Cash Flow

- Asset-light business model generates strong cash
 - High profit-to-cash conversion
 - Consistent dividend payments (1.90% yield)
-

4. Valuation

- **P/E Ratio:** 23.4x (reasonable for quality)
- **P/B Ratio:** 13.5x (premium justified by 65% ROE)
- **Market Cap:** 11,44,220 Cr
- **Dividend Yield:** 1.90% (consistent shareholder returns)

Valuation Assessment: Fair to slightly expensive, but quality warrants premium

5. Investment Thesis

Key Strengths

1. **Exceptional returns:** ROE 65%, ROCE 78% (best-in-class)
2. **Debt-free:** Zero financial risk
3. **Stable profitability:** 21% net margins consistently
4. **Asset-light model:** High cash generation
5. **Market leadership:** Global IT services powerhouse
6. **Shareholder-friendly:** Regular dividends + buybacks

Key Risks

1. **Modest growth:** ~3% revenue CAGR (mature business)
2. **Global macro sensitivity:** Recession/tech spending cuts
3. **Currency fluctuations:** Dollar-rupee volatility
4. **Valuation not cheap:** 23.4x P/E limits upside
5. **Stock correction:** Down 24% from peak

Investment Recommendation: **BUY on Dips**

Reasoning: TCS represents a high-quality compounder with:
- World-class capital efficiency (65-78% returns)
- Fortress balance sheet (debt-free)
- Predictable cash flows and dividends
- Current 3,162 price (~24% below high) offers entry opportunity
- Fair value range: 3,500-4,000 (25-30x sustainable P/E)

Ideal for: Conservative long-term investors seeking quality over growth. The combination of 65% ROE with zero debt is rare. Current correction provides accumulation opportunity.

Action: Buy in tranches around 3,000-3,200 levels.

Comparative Summary

Metric	Reliance	TCS	Winner
ROE	6.61%	65.0%	TCS
ROCE	7.57%	78.4%	TCS
P/E	47.2x	23.4x	TCS
Debt	High & Rising	Negligible	TCS
Growth	Negative	Positive	TCS
Dividend Yield	0.40%	1.90%	TCS

Verdict: TCS is objectively superior on every fundamental metric.

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

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
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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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