

Financial Analysis: RELIANCE

Jotty Financial Analysis

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Financial Analysis: RELIANCE

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Executive Summary

RELIANCE INDUSTRIES - FINANCIAL ANALYSIS SUMMARY

1. Company Overview

Reliance Industries is India's largest conglomerate with diversified operations across energy (refining, petrochemicals, oil & gas), retail, telecommunications (Jio), and digital services. It holds a dominant market position with a market cap of 18.76 lakh crore.

2. Financial Performance

Revenue & Profit Trends: - Sales show volatility: 1.26L Cr → 1.30L Cr → 1.23L Cr → 1.37L Cr → 1.28L Cr (mixed trajectory) - Net Profit declined from peak: 13,806 Cr → 9,627 Cr → 11,208 Cr → 9,924 Cr (28% decline from peak) - Operating Profit compressed: 19,132 Cr → 17,558 Cr

Profitability Ratios: - **ROE: 6.61%** (concerningly low for equity returns) - **ROCE: 7.57%**

(weak capital efficiency) - Operating Margin: ~12-15% (declining trend) - Net Margin: ~7-11% (inconsistent, peaked at 10.6%)

Growth Rates: - Revenue: Flat to negative growth - Profit: Declining trajectory (-28% from peak) - Stock underperformance implied by high P/E despite weak fundamentals

3. Financial Health

Balance Sheet Strength: - Equity base: 3.14L Cr (6,335 Cr capital + 3.08L Cr reserves) - Book value: 413 per share - Strong equity cushion built over years

Debt & Liquidity: - Borrowings increased steadily: 89,968 Cr → 1.17L Cr (+30% rise) - Debt-to-Equity: ~0.37x (manageable but rising) - Increasing leverage while profitability declines is concerning

Cash Flow: - Data not provided, but declining profits with rising debt suggests potential cash flow pressure

4. Valuation

- **P/E Ratio:** 47.2x - Extremely expensive given 6-7% returns
- **P/B Ratio:** 3.36x (1,386 / 413) - Premium valuation
- **Market Cap:** 18.76L Cr - Priced for perfection
- **Dividend Yield:** 0.40% - Minimal income returns
- **52-Week Range:** 1,612 high - Currently 14% below peak

Valuation Assessment: Significantly overvalued. A P/E of 47x with ROE of 6.61% represents a disconnect between price and fundamentals.

5. Investment Thesis

Key Strengths:

- Dominant market position across multiple sectors
- Diversified revenue streams (energy, retail, telecom, digital)
- Strong brand and execution capability
- Large equity base providing stability

Key Risks:

- **Critical concern:** ROE (6.61%) and ROCE (7.57%) below cost of capital
- Declining and volatile profitability trends
- Rising debt amid weakening earnings
- Grossly overvalued at 47x P/E
- Minimal dividend yield (0.40%)
- Margin compression across operations

Investment Recommendation: AVOID / SELL

Reasoning: Despite Reliance's market dominance, the financial metrics present a clear **value trap**. A company delivering 6-7% returns trading at 47x earnings represents one of the worst risk-reward profiles in the market. Key concerns:

1. Returns (ROE/ROCE) are below typical FD rates, yet stock trades at high-growth valuations
2. Earnings peaked in FY2 and have declined 28% despite revenue stability
3. Increasing debt (30% rise) during a profit downturn raises leverage risk
4. At current price (1,386), investors pay 47 for every 1 of declining earnings

Fair Value Estimate: Based on 6.61% ROE, a reasonable P/E would be 15-20x, suggesting fair value around 450-600 per share, implying **60-67% downside risk**.

Verdict: Wait for significant price correction or fundamental improvement before considering investment. Current valuation offers no margin of safety.

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%

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
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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