

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 a conglomerate operating across energy, petrochemicals, retail, and telecommunications sectors in India. With a market cap of 18.76 lakh crores, it's one of India's largest companies by market capitalization.

2. Financial Performance

Revenue & Profit Trends: - Sales (Cr): 125,849 → 129,674 → 122,627 → 137,380 → 127,695 (volatile, -7% recent decline) - Operating Profit: 14,899 → 19,132 → 17,493 → 19,191 → 17,558 (-8.5% recent decline) - Net Profit: 8,373 → 13,806 → 9,627 → 11,208 → 9,924 (-11.5% recent decline)

Profitability Ratios: - ROE: 6.61% (concerningly low) - ROCE: 7.57% (below cost of capital) - Operating Margin: ~13.7% (recent period) - Net Margin: ~7.8% (compressed)

Growth Analysis: - Revenue growth: Inconsistent, currently declining - Profit growth: Negative momentum - Profitability margins: Under pressure

3. Financial Health

Balance Sheet Strength: - Equity: 314,647 Cr (6,335 Cr capital + 308,312 Cr reserves) - Borrowings: 116,881 Cr (increasing trend from 89,968 Cr) - Debt-to-Equity: ~0.37 (manageable but rising)

Concerns: - Debt increasing 30% over the period - Book value of 413 vs market price suggests leverage/capitalization changes

4. Valuation

Key Metrics: - **P/E Ratio: 47.2** - Highly expensive (market expects strong recovery) - **P/B Ratio: 3.36** (1,386 / 413) - Premium to book value - **Dividend Yield: 0.40%** - Minimal income return - **52-week High/Low: 1,612** - Currently 14% below peak

Valuation Assessment: Significantly overvalued based on current fundamentals

5. Investment Thesis

Key Strengths:

- Market leadership and brand strength
- Diversified business model across sectors
- Strong equity base of 3.15 lakh crores

Key Risks:

- **Deteriorating profitability:** ROE/ROCE both under 8%
- **Declining earnings:** Net profit down 11.5%
- **Revenue volatility:** Inconsistent sales trajectory
- **Rising debt burden:** 30% increase in borrowings
- **Extreme valuation:** P/E of 47.2 vs declining earnings

Investment Recommendation: **AVOID / SELL**

Reasoning: The combination of declining profitability (ROE 6.61%, ROCE 7.57%), falling net profits, increasing debt, and an exceptionally high P/E ratio of 47.2 creates significant downside risk. The company would need to grow earnings at ~20-25% annually just to justify current valuations, which contradicts recent performance trends. The minimal 0.40% dividend yield offers no cushion. **Wait for either significant business improvement or substantial price correction (30-40%) before considering investment.**

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
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