

# 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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