

Financial Analysis: RELIANCE

Jotty Financial Analysis

Contents

Financial Analysis: RELIANCE	1
Executive Summary	1
RELIANCE INDUSTRIES - FINANCIAL ANALYSIS	1
1. Company Overview	1
2. Financial Performance	1
3. Financial Health	2
4. Valuation Metrics	2
5. Investment Thesis	2
Key Strengths	2
Key Risks	2
Investment Recommendation: AVOID / SELL	2
Detailed Financial Data	3
1. RELIANCE (RELIANCE)	3

Financial Analysis: RELIANCE

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Executive Summary

RELIANCE INDUSTRIES - FINANCIAL ANALYSIS

1. Company Overview

Reliance Industries is India's largest conglomerate with diversified operations across energy (refining, petrochemicals), retail, telecommunications (Jio), and digital services. The company holds a dominant position in multiple sectors with integrated business model advantages.

2. Financial Performance

Revenue & Profit Trends (Crores, last 5 years): - Sales: 125,849 → 129,674 → 122,627 → 137,380 → 127,695 - Net Profit: 8,373 → 13,806 → 9,627 → 11,208 → 9,924 - **Trend:** Volatile revenue with declining trajectory recently; profits peaked in year 2 but have declined 11% from year 4 to year 5

Profitability Ratios: - **ROE:** 6.61% (Low - indicates weak shareholder returns) - **ROCE:** 7.57% (Below cost of capital - concerning) - **Operating Margin:** ~13.7% (Year 5: 17,558/127,695) - **Net Margin:** ~7.8% (compressed margins)

Growth Analysis: - Revenue CAGR: ~0.4% (essentially flat over 5 years) - Profit: -15.5% decline from peak to latest year - Stock performance: Trading below 52-week high (1,386 vs 1,612)

3. Financial Health

Balance Sheet Strength: - Equity base doubled (3,232 Cr → 6,335 Cr) - likely stock split - Reserves growing: 193,859 Cr → 308,312 Cr (+59%) - Book Value: 413 per share

Debt & Liquidity: - **Borrowings:** 89,968 Cr → 116,881 Cr (+30% increase) - Debt-to-Equity rising - indicates higher leverage - **Concern:** Debt growing faster than profits

Cash Flow: - Data unavailable, but likely capital-intensive given borrowing trends

4. Valuation Metrics

- **P/E Ratio:** 47.2x (Significantly overvalued vs. earnings)
- **P/B Ratio:** 3.36x (1,386 / 413) - trading at premium to book value
- **Market Cap:** 18,75,736 Crores (~\$225 billion)
- **Dividend Yield:** 0.40% (Negligible income for investors)

Valuation Assessment: Stock appears **expensive** relative to current earnings and growth profile.

5. Investment Thesis

Key Strengths

- Dominant market position across multiple sectors
- Strong reserve base (3.08 lakh Cr)
- Brand equity and integrated business model
- Long-term digital/retail growth potential

Key Risks

- **Poor profitability:** ROE (6.61%) and ROCE (7.57%) below acceptable thresholds
- **Stagnant growth:** Flat revenue, declining profits
- **Rising debt:** Borrowings up 30% with weak returns
- **Expensive valuation:** 47.2x P/E unsustainable given fundamentals
- **Margin pressure:** Operating margins declining
- **Execution concerns:** Recent years show deteriorating performance

Investment Recommendation: AVOID / SELL

Rationale: 1. At 47.2x P/E with 6.61% ROE, the stock is trading on past reputation rather than current fundamentals 2. Capital is being deployed inefficiently (ROCE < 8%) 3. Profit declining despite increased leverage signals operational challenges 4. Better risk-reward opportunities exist elsewhere 5. Even long-term investors should wait for better entry points (sub-35x P/E) or improved operational metrics

Fair Value Estimate: 900-1,100 (30-35x normalized earnings), suggesting **25-35% downside risk** from current levels.

Hold Only If: You're a long-term believer in the Jio/Retail transformation story and can tolerate 3-5 year holding periods with potential near-term underperformance.

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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