

Financial Analysis: RELIANCE

Jotty Financial Analysis

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Financial Analysis: RELIANCE

Generated: 2026-01-26 19:37:10 Analysis Type: Comprehensive

Executive Summary

RELIANCE - Financial Analysis Summary

1. Company Overview

Reliance Industries Limited is India's largest conglomerate with diversified operations across:
- **Energy**: Oil & gas, petrochemicals, refining - **Retail**: Leading retail chain in India - **Telecom**: Jio (India's largest telecom operator) - **Digital Services**: Growing digital ecosystem

Industry Position: Market leader with 18.76 lakh crore market capitalization, making it one of India's most valuable companies.

2. Financial Performance

Revenue & Profit Trends (Crores)

- **Sales:** 1,25,849 → 1,27,695 (5-year period)
 - Peaked at 1,37,380, showing volatility
 - Recent decline to 1,27,695 indicates headwinds
- **Net Profit:** 8,373 → 9,924 (+18.5%)
 - Peaked at 13,806, then declined significantly
 - Shows recovery trend but below peak levels

Profitability Ratios

| Metric | Value | Assessment |
|-------------------------|--------|---------------------------------------|
| ROE | 6.61% | Poor - Below benchmark (15%+) |
| ROCE | 7.57% | Weak - Inefficient capital use |
| Operating Margin | ~13.7% | Moderate, but declining |
| Net Margin | ~7.8% | Compressed margins |

Growth Analysis

- **Stock Price:** 1,386 (Range: 1,612 high/low) - **Volatile**
- **Profit Growth:** Inconsistent, recovering from decline
- **Operating Profit:** 14,899 → 17,558 (+17.8%)

3. Financial Health

Balance Sheet Strength

Equity Base: - Reserves: 3.08 lakh crores (strong growth from 1.94 lakh crores) - Book Value: 413/share - **Price-to-Book:** 3.36x (trading at premium to book value)

Debt & Liquidity

- **Borrowings:** 89,968 → 1,16,881 crores (+30% increase)
- **Debt-to-Equity:** ~0.37x (manageable but rising)
- **Concern:** Increasing debt levels during uncertain profit phase

Cash Flow

- Operating profit stable (17,558 crores)
- Cash generation adequate but margin pressure visible

4. Valuation

| Metric | Value | Interpretation |
|-----------------------|---------------|--|
| P/E Ratio | 47.2x | Expensive - Well above market avg (~20-25x) |
| P/B Ratio | 3.36x | Premium valuation |
| Market Cap | 18.76 lakh cr | Mega-cap stock |
| Dividend Yield | 0.40% | Very Low - Poor income stock |

Valuation Verdict: **OVERVALUED** - High P/E with low ROE indicates premium pricing without corresponding profitability.

5. Investment Thesis

Key Strengths

1. **Market Leadership:** Dominant positions in retail, telecom, and energy
2. **Strong Reserves:** 3.08 lakh crores providing financial cushion
3. **Diversification:** Multiple revenue streams reduce concentration risk
4. **Brand Power:** India's most recognized corporate brand

Key Risks

1. **Poor Returns:** ROE (6.61%) and ROCE (7.57%) well below cost of capital
2. **Expensive Valuation:** P/E of 47.2x unjustified by profitability metrics
3. **Rising Debt:** 30% increase in borrowings amid profit volatility
4. **Margin Pressure:** Declining net margins indicate competitive/cost pressures
5. **Earnings Volatility:** Profit swung from 13,806 cr to 9,627 cr
6. **Poor Dividend:** 0.40% yield offers no income attraction

Investment Recommendation

AVOID / SELL

Reasoning: - **Value Trap:** Despite being a quality business, the stock is trading at **47x earnings with only 6.6% ROE** - fundamentally inconsistent - **Risk-Reward Unfavorable:** High valuation leaves limited upside, significant downside risk if earnings disappoint - **Better Alternatives Exist:** Investors can find companies with superior ROE/ROCE at lower valuations - **Not an Income Stock:** 0.40% dividend yield fails to compensate for valuation risk

Action: - **Current Holders:** Book profits or reduce position size - **Potential Buyers:** Wait for significant correction (30-40%) or improvement in ROE/ROCE - **Fair Value Estimate:** 900-1,000 (assuming 30x P/E, which is still premium)

Only Consider If: You're taking a 5-10 year view betting on Jio/Retail monetization improvement AND can tolerate 20-30% volatility.

Bottom Line: Quality company, but **wrong price**. Valuation doesn't reflect the poor capital efficiency metrics.

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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