

A Study on Fundamental Analysis of Reliance Industries Limited

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Abstract : Fundamental are associated with the economic health of a company. The fundamental tells you the financial position of a company. We can say a company is having healthy fundamentals if it is growing at a nice pace, generating a profit, has limited debts and abundant cash. The project work is an outcome of “A study on fundamental analysis of Reliance industries limited”. The study was carried out for the period of five years (2014-2018) to analyze the financial performance of the Reliance industries. The tools used for analysis is ratio analysis and the trend analysis. The findings from the analysis were discussed in detail a suggestions for corrective action like maintaining good solvency in order to meet short term and long term obligations were given wherever applicable.

IndexTerms - Fundamental analysis, ratios, trend, Reliance industries.

I. INTRODUCTION

Reliance Industries Limited (RIL) is an Indian conglomerate holding company headquartered in Mumbai, Maharashtra, India. Reliance owns businesses across India engaged in energy, petrochemicals, textiles, natural resources, retail, and telecommunications. Reliance is one of the most profitable companies in India. The company's equity shares are listed on the National Stock Exchange of India Limited (NSE) and the BSE Limited. Its debt securities are listed at the Wholesale Debt Market (WDM) Segment of the National Stock Exchange of India Limited (NSE). The number of shares of RIL are approx. 3.1 billion. The promoter group, Ambani family, holds approx. 46.32% of the total shares whereas the remaining 53.68% shares are held by public shareholders, including FII and corporate bodies. Life Insurance Corporation of India is the largest non-promoter investor in the company, with 7.98% shareholding.

II. OBJECTIVES

1. To find the trend of the reliance industries using the trend analysis.

III. RESEARCH METHODOLOGY

A research methodology involves specific techniques that are adopted in research process to collect, assemble and evaluate data. It defines those tools that are used to gather relevant information in a specific research study. It is the systematic investigation into and study of materials and sources in order to establish facts and reach new conclusions

Tools used for the analysis

1. Trend analysis

The above tool is used for the study.

IV. LIMITATIONS OF THE STUDY

1. The data used for the study is from secondary sources so that the accuracy may lack in this case.
2. The study is confined to only 5 years of data that has been used for the fundamental analysis.

V. REVIEW OF LITERATURE

J. Hema and V.Ariram (2016), “Fundamental analysis with special reference to pharmaceutical companies listed in NSE”, this study is focused on the fundamental analysis of 3 randomly selected pharmaceutical companies that are listed in the NSE. The data for the analysis is collected for a period of 5 years from 2011 to 2015. The fundamental analysis consists of 3 parts namely EIC analysis. Ratio analysis (EPS, DPS, Net profit margin and Debt to equity ratio) is used as the tool to conclude the result of the study. Industrial analysis shows that the Indian Pharmaceutical industry has high growth rate. Company analysis revealed that Lupin and Torrent pharma are financially stable during the study period. The economic analysis indicates the factors that influence the security market.

Keerthi Gururaj Kulakarani and Gururaj Anand Kulkarani (2013-2014), “Fundamental analysis vs technical analysis: a choice of sectoral analysis”, the paper explores the analytical tools in evaluating the sectoral stocks. It makes a comparison

on the fundamental analysis and the technical analysis to find out the importance of them in the decision of making investments in the securities. The study was conducted on the IT sectors, Automobile sectors, real estate sector, oil and natural gas sector and the banking sector of India. The period of the secondary data that are collected is limited to 1 year. Primary data are also used for the analysis. The study concludes that fundamental analysis is considered to be the most preferred analysis in choosing stocks to get higher returns. Real estate is the most preferred stock as per the result of the study.

A.S.Suresh (2013), "A study on the fundamental and technical analysis", estimates the stock price changes by studying the forces operating in the overall economy, as well as influences peculiar to industries and the companies. This study helps in selecting the right time and the right securities for the investment. It predicts the direction of the national economy because economic activity affects the corporate profit, investors attitude and security prices. Fundamental analysis is made on the 3 phase approach that is the EIC (economy, industry, company) approach. The technical analysis is done using Dow theory, charting, trends, moving average, relative strength, break-out theory. The study considers the risk and the return as the two most important characteristics of any investment. According to the analysis, the objectives of the investors is specified as the maximization of return and minimization of risks.

VI. ANALYSIS AND INTERPRETATION

TREND ANALYSIS

A) TREND PERCENTAGES OF CURRENT RATIO OF RIL

Table 1.1

Year	Current ratio	Trend percentage
2013-2014	1.416	100%
2014-2015	1.288	90.9%
2015-2016	0.74	52.2%
2016-2017	0.695	49.1%
2017-2018	0.6499	45.8%

Interpretation

The current ratio of the reliance industries company is not satisfying the 2:1 ratio which is considered as the healthy financial status of a company. But the reliance's current ratio have a decreasing trend from 1.416 to 0.6499 for the five financial years (2014 - 2018). Thus the Reliance company is failing to payout the debt with its current assets. The liability of the Reliance company is increasing than the assets of the company over the last 3 years.

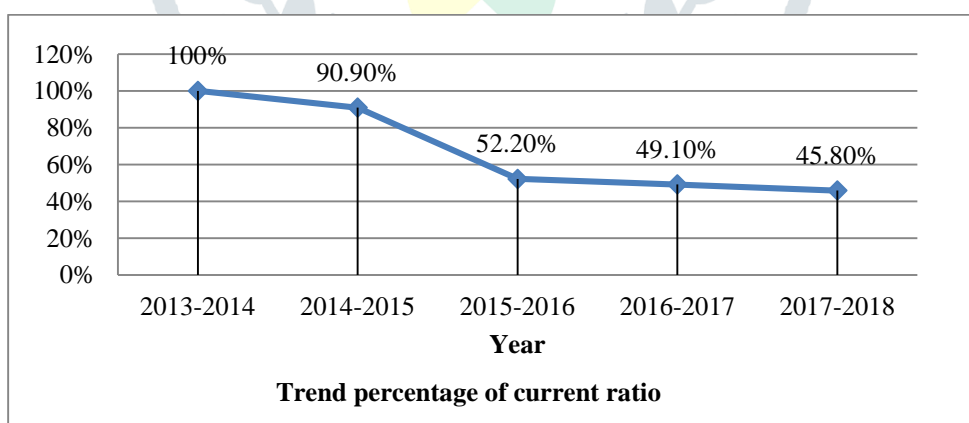


Figure1.1

B) TREND PERCENTAGES OF SALES OF RIL

Table 1.2

Year	Sales (in cr)	Trend percentage
2013-2014	390117	100%
2014-2015	320976	84.35%
2015-2016	233158	59.75%

2016-2017	242025	62.03%
2017-2018	290042	74.34%

Interpretation

By using trend analysis it has been found that the sales of reliance industries limited is on decreasing trend till 2015-2016 and thereafter the sales trend increases from the financial year 2019 – 2018.

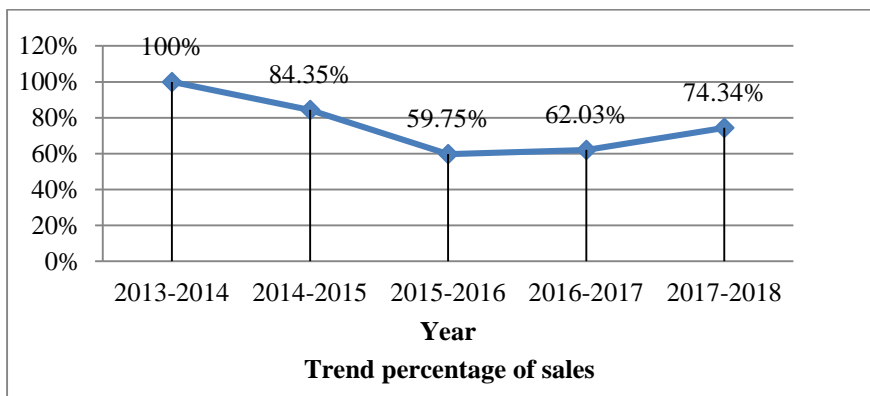


Figure 1.2

C) TREND PERCENTAGES OF PROFIT AFTER TAX OF RIL

Table 1.3

Year	Sales (in cr)	Trend percentage
2013-2014	390117	100%
2014-2015	320976	84.35%
2015-2016	233158	59.75%
2016-2017	242025	62.03%
2017-2018	290042	74.34%

Interpretation

The profit after tax of reliance industries limited experiences an increasing trend over the past five financial years. This indicates that the net profit of reliance industries limited is in a positive direction.

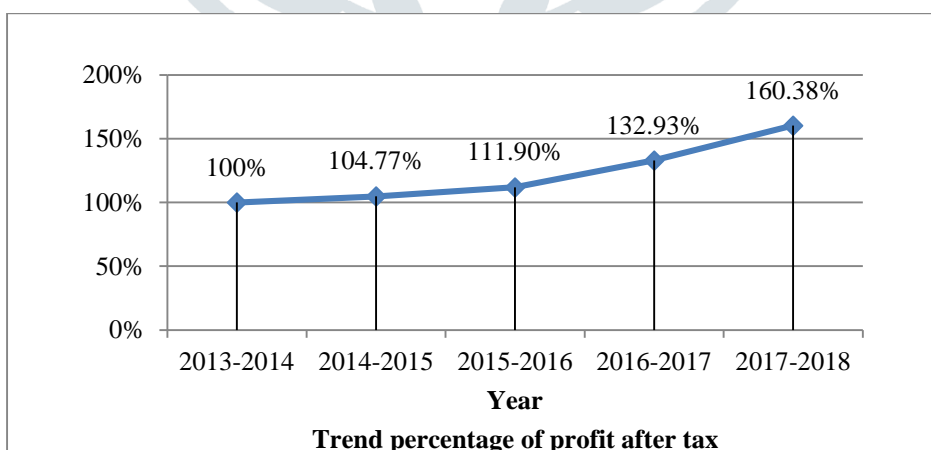


Figure 1.3

D) TREND PERCENTAGES OF DIVIDEND PER SHARE OF RIL

Table 1.4

Year	Profit (in cr)	Trend percentage
2013-2014	22493	100%

2014-2015	23566	104.77%
2015-2016	25171	111.9%
2016-2017	29901	132.93%
2017-2018	36075	160.38%

Interpretation

It is interpreted from the above table that reliance industries limited's dividend per share has an increasing trend till 2017 and the trend of the year 2018 moves downwards as the dividend has been decreased in the financial year.

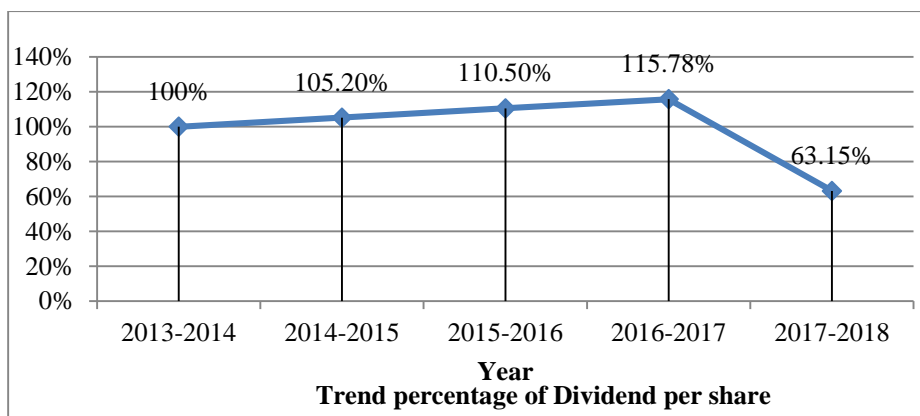


Figure 1.4

VII. FINDINGS

- The current ratio of the reliance industries company is not satisfying the 2:1 ratio which is considered as the healthy financial status of a company. But the reliance's current ratio have a decreasing trend from 1.416 to 0.6499 for the five financial years (2014 - 2018). Thus the Reliance company is struggling to payout the debt with its current assets. The liability of the Reliance company is increasing than the assets of the company over the last 3 years.
- From the trend analysis of sales, it is found that the sales of the Reliance industries limited is decreasing from the year 2014 – 2016 (390117 – 242025 crores). It may be due to the low demand level over the products of the reliance industries. As a result of the increase in demand (2018), the production has been increased to increase the inventories level. Thus the sales of the year 2018 is increased than the 2 previous years. It has been found that the demand may be increased due to the invention of the Telecommunication industries in the year 2017 – 2018.
- The trend of the profit of Reliance industries is attaining a increasing movement, which reveals the positive action of the company.
- The introduction of reliance telecommunication services may have a high impact for the profit of the firm. The analysis has found that there is a great difference between their profit to their DPS. Even though there is an increase in the net profit during the period of 2017-2018, such profits were used for other factors ignoring the wealth-maximization. The DPS is considered to have an adverse effect on the shareholders of the firm. Thus the net profit does not relate to the dividend distribution in the firm, creating a declination.

VIII. SUGGESTIONS

- To improve the liquidity position of the company they may adopt the measure of selling the unproductive assets which are lying useless as fixed assets of the company. When those assets are sold, the cash balance of the company may go up and also the expenses in case of depreciation would also be eliminated. This may help the company to increase its cash and bank balances. The other measure could be the elimination of the long term debtors and converting them to be the short term receivables which could help for the immediate cash earning capacity of the company.
- The Reliance company have to focus on the wealth maximization than profit maximization. When the shareholders are benefited through the wealth maximization then automatically the share value of the company may increase in the market.

IX. CONCLUSION

Fundamental analysis is the strong theory accepted worldwide. Some investor strongly believes on fundamentals of company and some believe technical plays very important role in investing. But it is mainly depends on demand and supply for the stocks in the stock market, an effort is made to make understand the investors about fundamental analysis by using the financial data of the company. Reliance industries have negative result in maintaining the solvency position and distribution of dividends to the shareholders. The profit of Reliance industries is increasing gradually which is a merit to the company.

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