



Financial Performance Analysis of Reliance Industries Ltd.

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Abstract

Financial statements provide crucial information about a company's operations and financial performance, which is analyzed through financial statement analysis. This analysis aims to understand the connections between various financial elements, identify strengths and weaknesses, and forecast future prospects. Financial statements consist of two important statements - the income statement and the balance sheet, along with other useful statements for internal purposes. Trend percentages are a tool for horizontal analysis used to understand changes in financial condition and operational effectiveness over a selected time period. The study of financial statements also involves calculating ratios to assess financial performance. For the purpose of the study, the researcher collected data from secondary sources from the company's annual reports as well as financial statement analysis journals and books. The collected data is analyzed by using trend percentages and ratio analysis.

Key Words:

Financial Statements, Financial Statement Analysis, Trend Percentages,

Ratio Analysis, Horizontal analysis, operational effectiveness

Introduction

Financial statements are documents that outline a company's operations and financial performance for management and other interested parties. Its goal is to impart a grasp of certain of a business firm's financial elements. As in the case of a balance sheet, it can reveal a position at a specific point in time, or as in the case of an income statement, it can reveal a series of actions over a specific time period.

The process of examining a company's financial statements in order to make decisions is known as financial statement analysis. The detailed accounting information provided in the financial statement is critically examined in financial statement analysis. Financial Statement Analysis is primarily a study of the connections between the

various financial elements in a firm as disclosed by one set of financial statements and a study of the trend of these factors as indicated in a number of financial statements. The goal of financial statement analysis and interpretation is to comprehend the relevance and meaning of financial statement data in order to identify a business undertaking's strengths and weaknesses so that a forecast of the business undertaking's future prospects can be produced. Financial statements generally consist of two important statements:

(A) The income statement or profit and loss account.

(B) Balance sheet or the position statement. Apart from that, the business concern also prepares some of the other parts of statements, which are very useful to the internal purpose such as:

(C) Statement of changes in owner's equity.

(D) Statement of changes in financial position.

Trend Percentages:

It is a tool for horizontal analysis that aids in understanding how the financial condition and operational effectiveness have changed throughout the selected time period. This approach is useful for comparing the financial statements of various years. The trend percentages depict the correlation between each item's % and the percentage from the year before. Trend Percentages were employed as a technique for the study's objectives in order to comprehend the industry's trend throughout a five-year period between 2017 and 2022. Some of the ratios are calculated to assess the financial performance of the industry.

About the Industry

With its headquarters in Mumbai, Reliance Industries Ltd is a multinational business corporation in India. Energy, petrochemicals, natural gas, retail, telecommunications, mass media, and textiles are just a few of the many industries it is involved in. One of India's most lucrative businesses, Reliance is also the country's biggest publicly traded business in terms of market capitalization and largest by revenue. With more than 300,000 people worldwide, it is also one of the biggest employers in India.

As of 2022, the company is listed as the 100th largest organization in the world on the Fortune Global 500 list. With 7% of all Indian merchandise exports and access to markets in more than 100 nations, Reliance is still India's top exporter. Almost 5% of the customs and excise duty revenue received by the government of India comes from Reliance. Moreover, it is the private sector taxpayer in India with the largest income. The business has a high level of corporate debt and relatively little free cash flow.

Reliance Industries Ltd., one of the biggest private sector businesses with thousands of employees, was initially formed by the late Dhirubhai H Ambani. The value chain for energy and materials is of particular relevance to the organization. Backward vertical integration is a special aspect of the sector. It began its operations with fabric in the late 1970s and gradually expanded into plastics, fiber intermediaries, polyester fibers, oil and gas exploration, and chemical manufacturing. Reliance Industries is the first Indian firm to have a market valuation of Rs 8 lakh crore (US\$ 122.85 billion) and 300 million customers.

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Review of Literature

Fajar, (2021) The author made an effort to ascertain the changes in the financial report and the development of the company's profitability with the aid of horizontal financial statement analysis and profitability ratios. The goal of data collection was to leverage secondary data. The operational income ratio is bigger than the net profit margin, which indicates that the amount of money spent on interest and taxes needs to be thoroughly scrutinized, according to the analysis of the profitability ratio at PT Indofood Sukses Makmur Tbk. Due to the company's ability to lower operating costs on sales, the operating ratio drop from 2017 to 2019 resulted in an increase in the operating income ratio, indicating that the company's performance is improving. The study of the income statement reveals that there has been a rise in cost-effectiveness, which raises sales levels and raises the value of gross profit as a result of a fall in the cost of products sold.

Ruhaya Atan, (2010) The purpose of the author's study was to evaluate the financial performance of Malaysia's local governments. Fiscal-year balance, short-term liquidity, and long-term solvency are the three categories that have been used to study financial performance. Using these three categories, the study looked at the financial performance of city councils, municipal councils, and district councils. 12 LAs from one of Malaysia's developed states were included in the sample, which was collected from 2000 to 2006 over a seven-year period. It was found that the LAs had fared poorly in all three categories based on the results, which demonstrate unfavorable trends for the majority of the metrics used. The city councils are discovered to be the top performers out of everyone. The poor performance seen in these three categories of data clearly demonstrates that there is some kind of sizable financial system leakage in the LAs. The study's conclusions might be effectively applied as a roadmap to help the council members, senior staff, and other stakeholders—including the federal and state governments—assess their effectiveness and direct the organization's financial performance and sustainability.

Singh, (2016) A business's financial statements are its lifeblood. Individuals rely on these financial statements to understand the state, performance, and capacity of a certain business to effectively sustain past and future activities. The aforementioned subject clarifies the qualifications of financial statement analysis in both a

theoretical and practical manner. In order to more accurately extrapolate and estimate the future of a business concern, the author makes an attempt to highlight the strategies, methods, and techniques for analyzing financial statements in order to assess a company's position, profitability, future earnings, ability to pay interest, etc.

Research Design:

Objectives

1. To know the financial performance of Reliance Industries Ltd by using ratio analysis and trend percentages
2. To evaluate the profitability position of the company.

Scope of the Study:

Just trend percentages and ratio analysis were employed by the researcher among the many financial statement analysis tools and techniques to examine the financial performance and profitability of Reliance Industries Ltd.

Limitations of the Study

The study may not produce accurate results because it is based on secondary data. Only financial data from the previous five years (2017–2022) was used in the analysis. Accurate conclusions were not made because of the company's need for concealment. The calculations could differ by a small fraction.

Collection of Data

Secondary data are used to collect data. The secondary data was gathered from the company's annual reports as well as financial statement analysis journals and books.

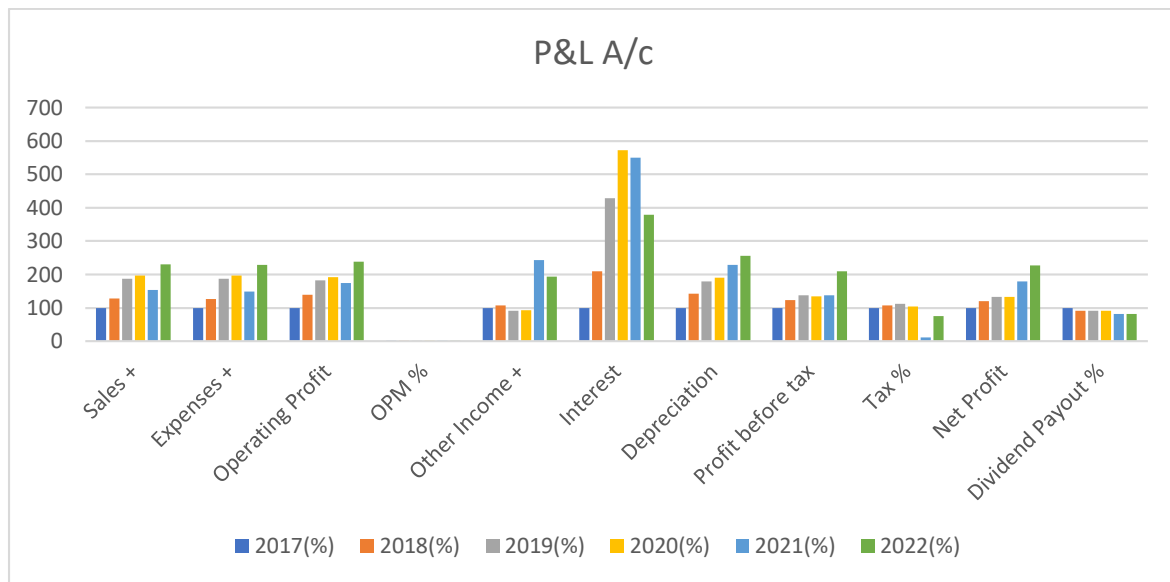
Discussions & Findings:

Profit & Loss of Reliance Industries Ltd

Trend Percentages

PRODUCT SEGMENTS	2017(%)	2018(%)	2019(%)	2020(%)	2021(%)	2022(%)
Sales +	100	129	187	196	153	230
Expenses +	100	127	188	197	150	228
Operating Profit	100	139	182	193	174	239
OPM %	15%	16%	15%	15%	17%	16%
Other Income +	100	107	91	93	243	194
Interest	100	209	429	572	551	379
Depreciation	100	143	180	191	228	256
Profit before tax	100	123	138	134	139	210
Tax %	100	108	112	104	12	76
Net Profit	100	121	134	134	180	227
Dividend Pay-out %	100	91	91	91	82	82

Table No:1



The table provides information about the Profit and Loss statement of Reliance Industries Ltd for the years 2017 to 2022.

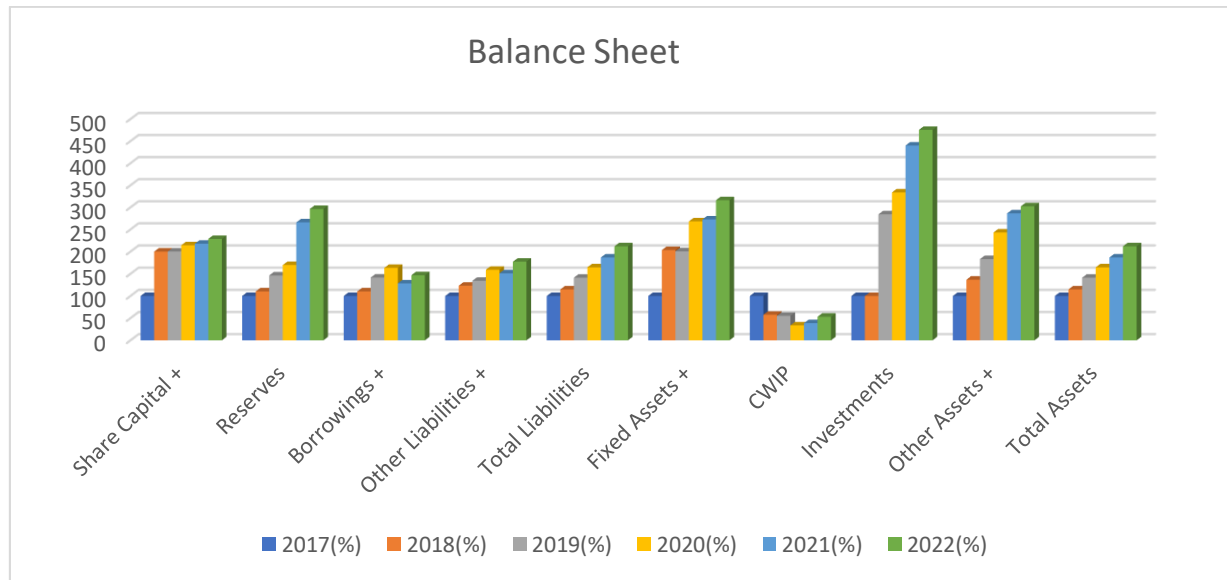
The company's sales increased by 29% in 2018, 87% in 2019, and peaked at 230% in 2022, compared to the previous year. However, there was a decline of 43% in sales in 2021 compared to 2020. The company's expenses increased by 27% in 2018, 88% in 2019, and peaked at 228% in 2022 compared to the previous year. However, there was a decline of 47% in expenses in 2021 compared to 2020. The company's operating profit increased by 39% in 2018, and 82% in 2019, and peaked at 239% in 2022 compared to the previous year. There was also a decline in operating profit by 19% in 2021 compared to 2020. The operating profit margin of the company remained relatively stable between 15% and 17% from 2017 to 2022. The company's other income increased by 7% in 2018, declined by 9% in 2019, and peaked at 243% in 2021 compared to the previous year. The company's interest expense showed an increasing trend till 2021. However, there was a decline in interest expenses in 2022 compared to 2021. The company's depreciation expenses showed an increasing trend throughout the period of study. The company's profit before tax increased throughout the year of study except 2020 and peaked in 2022 compared to the previous year. Even though there is an increase in expenses, the operating profit and the net profits of the industry showed an increasing trend which shows that the industry is able to maintain its profitability. The company's dividend payout ratio remained relatively stable at 91% from 2018 to 2021, with a slight decline to 82% in 2022.

Balance Sheet of Reliance Industries Ltd

Trend Percentages						
	2017(%)	2018(%)	2019(%)	2020(%)	2021(%)	2022(%)
Share Capital +	100	200	200	214	218	229
Reserves	100	110	146	170	266	296
Borrowings +	100	110	141	163	128	147
Other Liabilities +	100	123	134	159	151	177
Total Liabilities	100	115	141	165	187	212
Fixed Assets +	100	203	201	268	273	316
CWIP	100	58	55	34	39	53
Investments	100	100	284	334	440	476

Other Assets +	100	137	183	243	286	302
Total Assets	100	115	141	165	187	212

Table No.2



This table represents the balance sheet trend percentages of Reliance Industries Ltd for the years 2017 to 2022.

The share capital of the company remained constant at 100% from 2017 to 2018, after which it increased gradually and reached 229% in 2022. This indicates that the company has been issuing more shares and raising more capital over the years. The reserves of the company increased steadily from 100% in 2017 to 266% in 2021, indicating that the company has been retaining more profits over the years. The borrowings of the company increased steadily from 100% in 2017 to 163% in 2020, after which it decreased to 128% in 2021 and increased slightly to 147% in 2022. This indicates that the company has been borrowing more funds in the initial years to finance its operations, but has been reducing its dependence on borrowings in recent years. Other liabilities of the company increased steadily from 100% in 2017 to 159% in 2019, after which it remained stable around the 150-177% range. The total liabilities of the company increased steadily from 100% in 2017 to 165% in 2020, after which it increased sharply to 187% in 2021 and further to 212% in 2022. This indicates that the company's liabilities have been increasing over the years, which may be due to increased borrowing or increased liabilities from operations.

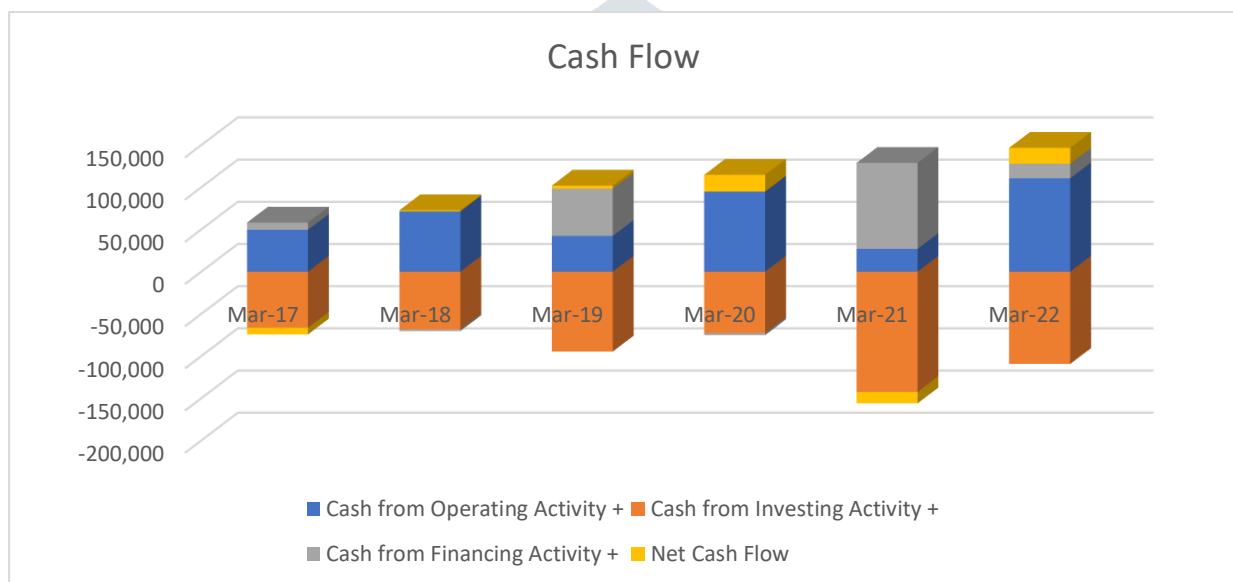
The fixed assets of the company increased sharply from 100% in 2017 to 203% in 2018, after which it increased gradually and reached 316% in 2022. This indicates that the company has been investing heavily in fixed assets such as property, plant, and equipment, and has been increasing its production capacity over the years. The capital work-in-progress (CWIP) of the company decreased steadily from 100% in 2017 to 58% in 2018, 34% in 2020, and increased gradually to 53% in 2022. This indicates that the company has been undertaking new capital projects, but the pace of completion of those projects has been slowing down in recent years.

The investments of the company increased gradually from 100% in 2017 to 284% in 2019, after which it increased sharply to 440% in 2020 and further to 476% in 2022. This indicates that the company has been investing more in financial assets such as stocks, bonds, and mutual funds over the years. The other assets of the company increased steadily from 100% in 2017 to 243% in 2019, after which it increased sharply to 286% in 2021 and remained stable at 302% in 2022. This indicates that the company has been increasing its other assets, such as

intangible assets, investments in subsidiaries, and advances to suppliers, over the years. The total assets of the company increased steadily from 100% in 2017 to 165% in 2020, after which it increased sharply to 187% in 2021 and further to 212% in 2022. This indicates that the company's assets have been increasing over the years, which may be due to increased investments in fixed assets

Cash Flows						
Trend Percentages						
	2017(%)	2018(%)	2019(%)	2020(%)	2021(%)	2022(%)
Cash from Operating Activity +	100	144	85	191	54	223.3179
Cash from Investing Activity +	100	103	143	110	215	164.8948
Cash from Financing Activity +	100	-23	649	-29	1,183	200.6383
Net Cash Flow	100	-16	-47	-247	168	-233.769

Table No.3



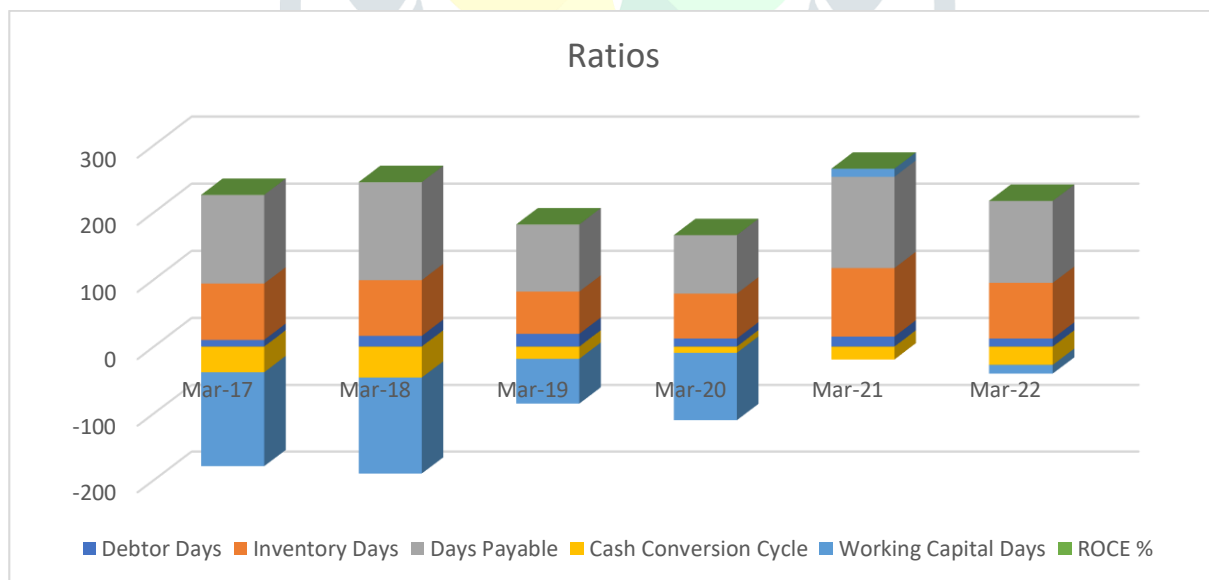
This table represents the cash flow trend percentages of Reliance Industries Ltd for the years 2017 to 2022. The trend percentages show the year-on-year change in the different items of the cash flow statement, compared to the base year of 2017, which is set at 100%.

The cash from operating activity of the company increased sharply from 100% in 2017 to 144% in 2018, after which it decreased to 85% in 2019, increased again to 191% in 2020, and decreased significantly to 54% in 2021. However, in 2022, it increased dramatically to 223.3179%. This indicates that the company has been generating cash from its operations, but there have been fluctuations over the years due to various factors such as changes in working capital, operating expenses, and interest payments. The cash from investing activity of the company increased gradually from 100% in 2017 to 143% in 2019, after which it increased sharply to 215% in 2021, and further increased to 164.8948% in 2022. This indicates that the company has been investing more in its business, which may include capital expenditures, acquisitions, and investments in other businesses. The cash from financing activity of the company decreased sharply from 100% in 2017 to -23% in 2018, indicating that the company was repaying debt or raising less debt during that period. However, it increased significantly to 649% in 2019, indicating that the company raised a significant amount of debt during that year. In 2020, it decreased sharply to -29%, indicating that the company was repaying debt or raising less debt. In 2021, it increased

significantly to 1,183%, indicating that the company raised a substantial amount of capital through financing activities. In 2022, it increased even more sharply to 200.6383%. This indicates that the company has been raising more capital through financing activities in recent years, which may include debt financing, equity financing, or other financing arrangements.

The net cash flow of the company decreased gradually from 100% in 2017 to -47% in 2019, indicating that the company was using more cash than it was generating during those years. However, in 2020, it decreased significantly to -247%, indicating that the company was using a lot more cash than it was generating, possibly due to the impact of the COVID-19 pandemic. In 2021, it increased significantly to 168%, indicating that the company generated more cash than it used during that year. However, in 2022, it decreased sharply to -233.769%, indicating that the company was using more cash than it was generating during that year, which may be due to increased investments and financing activities.

Ratios						
Consolidated Figures in Rs. Crores						
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Debtor Days	10	16	19	12	15	12
Inventory Days	84	83	63	67	102	83
Days Payable	132	146	100	87	136	122
Cash Conversion Cycle	-38	-46	-18	-9	-19	-27
Working Capital Days	-141	-144	-67	-101	12	-13
ROCE %	10%	11%	12%	11%	8%	9%



The above table shows that the company has been able to collect payments from its customers faster in recent years, as the debtor days have decreased from 19 in Mar-19 to 12 in Mar-22. The company has seen fluctuations in its inventory days, with a peak in Mar-21 at 102 days, but it has improved to 83 days in Mar-22. The company has been taking longer to pay its suppliers, with days payable increasing from 100 in Mar-19 to 136 in Mar-21. However, it decreased slightly to 122 in Mar-22. The company's cash conversion cycle has been negative, indicating that it has been able to convert its assets into cash quickly. However, it has worsened in recent years,

with a decrease from -18 in Mar-19 to -27 in Mar-22. The company has seen significant fluctuations in its working capital days, from a low of -141 in Mar-17 to a high of 12 in Mar-21, but it has improved to -13 in Mar-22. The company's return on capital employed has fluctuated between 8% and 12% in recent years, but it has remained relatively stable overall. However, the ROCE decreased from 11% in Mar-20 to 8% in Mar-21, before improving slightly to 9% in Mar-22.

Findings

1. Although there have been swings over the years, the corporation has been generating cash from its operations.
2. The company has been making greater investments in its operations, such as capital expenditures, buyouts, and investments in other companies.
3. In recent years, the company has increased the amount of money it raises through financing activities, which may include debt financing, equity financing, or other financing agreements.
4. There is a diminishing tendency in the net cash flow.
5. Throughout the first several years, the company borrowed more money to finance its activities.
6. Throughout time, the company's assets have increased.
7. The company's profitability displayed an upward trend.
8. The business has made major investments in growth prospects, which have produced impressive returns.

Suggestions

1. The company should focus on improving its cash flow from operating activities, which is the primary source of cash for any business. This can be achieved by reducing operating expenses, managing working capital effectively, and improving profitability.
2. The company should balance its investments with financing activities to ensure that it has enough cash to meet its obligations and avoid taking on too much debt.
3. The company should monitor external factors that can impact its cash flow and take appropriate measures to manage its cash flow effectively.
4. The company should aim to generate positive cash flow consistently to meet its operating, investing, and financing needs. It can achieve this by improving profitability, managing working capital effectively, and reducing debt.
5. The company has been investing heavily in investments, which have shown significant growth over the years. It should continue to invest in areas that have high growth potential and align with its long-term strategy.
6. To maintain growth and profitability, the company should continue to put emphasis on increasing operating effectiveness, controlling costs, diversifying its sources of income, maximizing its tax plan, and assessing its dividend policy.

7. The company should consider retaining more profits to build its reserves and strengthen its financial position.
8. The company should continue to explore new investment opportunities to diversify its portfolio and maximize returns on its investments.
9. The company should ensure that its capital projects are completed on time and within budget to minimize delays and cost overruns.

Conclusion

Based on the financial analysis provided, it appears that the company has been investing heavily in fixed assets and financial assets, which has driven its growth in recent years. However, it has also been taking on more liabilities, particularly in the form of borrowings. This suggests that the company should focus on balancing its investments with financing activities to ensure that it has enough cash to meet its obligations and avoid taking on too much debt. Moreover, the company should focus on improving its cash flow from operating activities and aim to generate positive cash flow consistently to meet its operating, investing, and financing needs. This can be achieved by improving profitability, managing working capital effectively, and reducing debt. The company should also consider retaining more profits to build its reserves and strengthen its financial position. Although the company's financial ratios have fluctuated over time, it has been able to quickly transform its assets into cash and collect payments from customers while paying suppliers more slowly.

In conclusion, while the company has shown growth potential in its investments, it needs to ensure that its operations are sustainable and able to generate sufficient cash flow. By taking a balanced approach to investments and financing, while focusing on operational effectiveness, cost control, and diversification, the company can continue to grow and remain competitive in the long term.

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Profit & Loss of Reliance Industries Ltd

Consolidated Figures in Rs. Crores

PRODUCT SEGMENTS	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Sales +	3,03,954	3,90,823	5,68,337	5,96,679	4,66,307	6,98,672
Expenses +	2,57,647	3,26,508	4,84,087	5,07,413	3,85,517	5,88,077
Operating Profit	46,307	64,315	84,250	89,266	80,790	1,10,595
Other Income +	9,222	9,869	8,406	8,570	22,432	17,928
Interest	3,849	8,052	16,495	22,027	21,189	14,584
Depreciation	11,646	16,706	20,934	22,203	26,572	29,797
Profit before tax	40,034	49,426	55,227	53,606	55,461	84,142
Tax %	25%	27%	28%	26%	3%	19%
Net Profit	29,833	36,080	39,837	39,880	53,739	67,845

Cash Flows

Consolidated Figures in Rs. Crores

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Cash from Operating Activity +	49,550	71,459	42,346	94,877	26,958	1,10,654
Cash from Investing Activity +	-66,201	-68,192	94,507	72,497	1,42,385	1,09,162
Cash from Financing Activity +	-8,617	-2,001	55,906	-2,541	1,01,904	17,289
Net Cash Flow	-8,034	1,266	3,745	19,839	-13,523	18,781