Financial Performance Analysis of Reliance Industries Ltd. –An Indian Conglomerate MNC

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ABSTRACT

The term "Financial Performance Analysis" is used to describe the process of identifying financial strength and weakness of a company with the help of its Financial Statements i.e. Income Statement (Profit and Loss Account) and Position Statement (Balance Sheet). It helps a company not only to predict future profits efficiently but also to take necessary corrective measures to overcome weaknesses. Reliance Industries Limited (RIL) is one the largest private sector companies in India that has a strong existence in the rapidly expanding telecommunication and retail sectors. In this paper, the financial performance analysis of RIL has been done for a five years period, ranging from the financial year 2017-18 to 2021-2022. The study has been done with the objective of evaluating the financial position of the company along with identifying and analyzing the financial changes and the future results with the help of ratio and trend analysis. The data has been collected from annual reports, company's website, published articles and other reliable sources. The study depicts that the company has weaknesses in various areas and improvement in those areas will help the company to achieve its perfect ratios. The study has some limitations also relating to primary sources data, tools of data analysis, periodicity of study etc.

Keywords: Financial Statements, Profitability, Operational Ability, Solvency.

INTRODUCTION

Financial performance analysis is the technique of evaluating the financial health of a company by establishing proper relationships between the items of financial statements. In other words, it is a process of identifying the financial strengths and weaknesses of a company. The financial information of a company is primarily provided in its financial statements i.e. Profit and Loss Account and Balance Sheets. Among all the techniques of analyzing financial performance of a company, ratio and trend analysis is very much useful. Usually, the analysis of financial statements is done to find the company's current financial position with that of market situation. The users of such analysis include shareholders, Board of Directors, creditors, investors, researchers etc.

FINANCIAL STATEMENTS

Financial statements are organized and systematic record of financial information/data of a company. These statements are usually prepared at the end of each accounting/financial year to show the financial performance as well as financial position of a business firm or company. Financial Statements includes-Income Statements and Position statements. Further, the income statements include- Trading Account &

Profit and Loss Account. The position statement is also called Balance Sheet. Financial statements are prepared by following certain established accounting principles and assumptions.

- **Characteristics of Financial Statements:**

1. Financial Statements ignore qualitative information and are expressed in monetary terms. Non-monetary transactions are not recorded in financial statements.
2. These statements are always prepared for a definite period of time. The period usually covers one year.
3. These are usually prepared using historical information/data.

- **Importance of Financial Statements:**

1. **To the Management:** Financial statements help the management of the company to know the present position, progress and future prospects of the company by providing accurate and systematic financial information.
2. **To the Shareholders:** Financial Statements provide necessary information to the shareholders of a company; Such as efficiency and effectiveness of the management, profit earning capacity of the company etc.
3. **To the Lenders or Creditors:** These statements provide information about liquidity, profitability and long term solvency position of the company to the lenders or creditors.
4. **To the Public:** The various public groups such as financial analysts, trade associations, trade unions, lawyers, financial press, research scholars and teachers, etc are interested to know the financial performance of a company for different purposes. Published financial statements provide those required information to the public.

RELIANCE INDUSTRIES LTD.

Reliance Industries Limited; headquartered in Mumbai, is an Indian privately owned multinational conglomerate company that has diverse businesses such as petrochemical, energy, natural gas, retail, telecommunication, textiles, mass media, etc. The company was founded by Shri Dhirubai Ambani in the year 1966. But now the company has been taken over by his son Shri Mukesh Ambani who is the present chairman and managing director of the company. The company is famous among the mass for its reliable products and services. Reliance Industries Ltd. also has a number of prominent brands which are traded around the globe.

OBJECTIVES OF STUDY

The research study has been conducted with the following objectives:

1. To analyze the profitability, operational ability and solvency position of the company over the last five years.
2. To predict the expected sale and profit figures for the upcoming five years.
3. To identify and analyze the weak areas of the company.
4. To suggest effective remedial measures for overcoming the weaknesses, if any.

RESEARCH QUESTIONS

The study has been made based upon the following research questions in mind:

1. Are the profitability, operational ability and solvency position of RIL satisfactory?
2. Will be the trend of expected sale and profit for the next five years favorable?
3. Whether it is risk free to invest in RIL or not?

RESEARCH METHODOLOGY

The following methodology has been adopted to carry out the study:

1. **Source of Data:** The research is purely based on secondary data; that means the data has been collected from various sources like company's annual published report, company's website, other related books, articles and publications.
2. **Tools of Analysis:** For analyzing data and to find out profitability, operational ability, solvency position as well as expected future sale and profit of the company; ratio and trend analysis has been used.

LIMITATION OF STUDY

The research study has the following limitations:

1. The study lacks first hand information i.e. primary data;
2. The periodicity of study is only five years;
3. Only the tools of ratio analysis, trend analysis has been used for getting the results.

DATA ANALYSIS AND INTERPRETATION

Table: 1 Analysis of Liquidity

Year	Current Ratio = $\left(\frac{\text{Current Assets}}{\text{Current Liabilities}}\right)$	Quick Ratio = $\left(\frac{\text{Quick Assets}}{\text{Current Liabilities}}\right)$
2017-2018	0.59	0.39
2018-2019	0.73	0.52
2019-2020	0.63	0.45
2020-2021	1.34	1.05
2021-2022	1.12	0.78

Source: Secondary Data

Interpretation: The term liquidity implies short-term payment ability. The above table depicts that the company has been maintaining more or less ideal current ratio i.e. 2:1 and quick ratio i.e. 1:1. However, in financial year 2019-20 both the current and quick ratio decreases due to its increasing amount of current liabilities. An increasing trend of these two ratios is a favorable sign of liquidity position for the company.

Table: 2 Analysis of Solvency

Year	Debt-Equity Ratio $= \left(\frac{\text{Total Debt}}{\text{Shareholder's Equity}}\right)$	Long-term Debt-Equity Ratio = $\left(\frac{\text{Long Term Debt}}{\text{Shareholder's Equity}}\right)$	Interest Coverage Ratio = $\left(\frac{\text{Earnings Before Interest and Tax}}{\text{Interest Expenses}}\right)$
2017-2018	0.62	0.49	7.13
2018-2019	0.70	0.54	4.34
2019-2020	0.65	0.44	3.63
2020-2021	0.32	0.23	3.33
2021-2022	0.34	0.24	6.56

Source: Secondary Data

Interpretation: The term solvency signifies leverage position, long term payment ability and growth potential. Table: 2 show that from the year 2019-20, the company has been reducing the debt components (both short-term and long-term) in its capital structure. However, during the financial year 2018-19 both the debt equity ratio and long term solvency ratio of the company was increasing as compared to the financial year 2017-18. Like that, the table also shows that the interest coverage ratio of the company is decreasing from the financial year 2017-18 to 2020-21. That means the company's total interest expenses in relation to Earnings before Interest and Tax (EBIT) is increasing.

Table: 3 Analysis of Efficiency

Year	Inventory Turnover Ratio = $\left(\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}\right)$	Debtor's Turnover Ratio = $\left(\frac{\text{Total Credit Sales}}{\text{Average Debtors}}\right)$	Investment Turnover Ratio = $\left(\frac{\text{Net Sales}}{\text{Average Total Assets}}\right)$
2017-2018	7.08	30.44	7.08
2018-2019	9.25	23.89	9.25
2019-2020	8.93	24.02	8.93
2020-2021	6.60	24.15	6.60
2021-2022	7.36	32.28	7.36

Source: Secondary Data

Interpretation: Table: 3 depicts that the inventory turnover ratio of the company is showing a downward trend from the financial year 2018-19. It implies weak sales and poor inventory planning. The debtor's turnover ratio of the company is not showing a specific trend. Initially it was decreasing and later on it started increasing. Increasing trend of debtor's turnover ratio indicates increasing ability of converting of debtors into cash quickly. The investment turnover ratio of the company is showing a decreasing trend from the financial year 2018-19. It indicates management's inability to generate revenue to its debt and equity.

Table: 4 Analysis of Profitability

Year	**Gross Profit Ratio =** $(\frac{\text{Gross Profit}}{\text{Sales}} \times 100)$	**Net Profit Ratio Gross Profit Ratio =** $(\frac{\text{Net Profit}}{\text{Sales}} \times 100)$	**Return on Capital Employed Ratio Gross Profit Ratio =** $(\frac{\text{Earnings Before Interest and Tax}}{\text{Capital Employed}} \times 100)$	**Return on Net Worth Ratio =** $(\frac{\text{Net Income}}{\text{Shareholder's Equity}} \times 100)$
2017-2018	12.11	09.21	12.08	12.29
2018-2019	11.10	06.95	10.86	10.22
2019-2020	11.18	06.58	10.79	08.76
2020-2021	11.60	10.52	07.62	07.01
2021-2022	11.52	08.67	09.14	07.78

Source: Secondary Data

Interpretation: Table: 4 depicts that the company's gross profit ratio was highest during the financial year 2017-18. In the succeeding years the gross profit ratio was almost constant with a little variation. The company has failed to maintain an increasing trend of net profit ratio. The maximum net profit ratio of the company was in the financial year 2020-21. The table also depicts that the return on capital employed ratio and return on net worth ratio of the company was in a decreasing trend till the last financial year.

Table: 5 Trends of Sales

Years	**X**	**Y**	**X^2**	**XY**	**Sales Trend (In Cr.)**
2017-2018	-2	391677	4	-783354	442204.40
2018-2019	-1	569209	2	-569209	493632.90
2019-2020	0	597535	0	0	545061.40
2020-2021	1	466924	2	466924	596489.90
2021-2022	2	699962	4	1399924	647918.40
Total		**2725307**	**10**	**514285**	

$$\mathbf{A} = \frac{\sum y}{\text{No of years}} = \frac{2725307}{5} = \mathbf{545061.40}$$

$$B = \frac{\sum xy}{\sum x^2} = \frac{514285}{10} = 51428.50$$

Table: 5.1 Projected Trend of Sales

Years	Expected Sales (in Cr.)
2022-23	699346.50
2023-24	750555.00
2024-25	802203.50
2025-26	853632.00
2026-27	905060.50

Interpretation: In the table: 5.1; it is seen that the company's projected sales for the upcoming five years i.e. for the period of 2022-2027 is in an increasing trend. With this increasing volume of sales the company can generate better profit (return) and can provide more sophisticated products/services to the customers. This in turn will help the company to increase its customer base.

Table:6 Trend of Profit

Years	X	Y	X^2	XY	Sales Trend (In Cr.)
2017-2018	-2	36080	4	-72160	31989.80
2018-2019	-1	39837	2	-39837	39733.00
2019-2020	0	39880	0	0	47476.20
2020-2021	1	53739	2	53739	55219.40
2021-2022	2	67845	4	135690	62962.60
Total		**237381**	**10**	**77432**	

$$A = \frac{\sum y}{\text{No of years}} = \frac{237381}{5} = 47476.20$$

$$B = \frac{\sum xy}{\sum x^2} = \frac{77432}{10} = 7743\ .20$$

Table: 6.1 Expected Trend of Profit

Years	Expected Sales (in Cr.)
2022-23	70705.80
2023-24	78449.00
2024-25	86192.20
2025-26	93935.40
2026-27	101678.60

Interpretation: In the above table, the projected profit analysis of the company for the period of 2022-27 shows an increasing trend, which is a very good sign for future expansion of the company. With increasing volume of profit, the company can pay higher return to the shareholders, can invest additional fund in the existing business or in new business.

FINDINGS

The findings of the study are as follows:

1. The study found that the liquidity position of the company is not upto the mark i.e. current liabilities are more than current assets. Liquidity refers to the short-term payment ability of a company. Throughout the period, the company has failed to maintain the ideal ratio. However, during the last two years the current ratio and quick ratio of the company has improved towards an acceptable limit.
2. Form the analysis it is found that the company is using low total debt (including long term debt) to equity ratio. It implies that the company is focusing more on owned fund as compared to borrowed fund. However, it is important to notice that the use of owned funds has been reducing by the company as compared to borrowed funds throughout the period of five years. Further, the company has earned sufficient profit (EBIT) successfully to cover its interest expenses in all the financial years.
3. The study found that the company is suffering from poor inventory planning as indicated by the trend of inventory turnover. However, its ability to convert debt into cash has increased throughout the years. Further, the company is efficiently maintaining high investment turnover ratio. It implies that the management of the company is very much efficient to generate sufficient revenue with a specific amount of funding.
4. The study found that the company is successfully maintaining a trend of positive profit in all the financial years with a little fluctuation.
5. The study further found that the projected sales and profit of the company for the upcoming five years is upward sloping, which is very much needed for future growth and expansion.

SUGGESTIONS

Following are the suggestion:

1. For immediate cash payment, the company requires sufficient cash level. That's why; the management of the company should focus on improving the liquidity position by making delay in capital purchase, reducing the use of owned funds, selling any capital assets that are not generating return for the business.
2. The cost of debt is lower than cost of equity. Therefore, the management of the company should try to add more debt components in the capital structure. Debt financing will help to keep profits within the company. Moreover, deduction of interest from operating profit (PBIT) will help to reduce tax burden of the company.
3. For improving profitability of the company the management should focus on reducing cost, increasing sales, increasing productivity and improving efficiency. For this, the company can expand its existing business into new market area, can introduce new product or services, can

increase customer base, can eliminate unnecessary processes, can decrease wastages, can conduct extensive training etc.

CONCLUSION

Being India's one of the largest MNC with all major parameters, Reliance Industry Limited has the capability of throwing the weaker firms out of competition either by acquiring or taking over them. It is hoped that, the study will generate a clear picture of the company and will help the management to take effective managerial decisions. Further, it is hoped that; the study will enlighten the importance of ratio analysis and mean deviation technique. Though the study found that the company is in a satisfactory financial condition, yet it has to improve its performance in some specific areas to satisfy the ideal ratios. As mentioned in the suggestions, the company should focus on improving its current and quick ratios for getting a satisfactory liquidity position and should add more debt capital in its capital structure.

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