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Analysis of financial strength in terms of short-term liquidity in Reliance industries Limited

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Abstract: *The concept of financial performance analysis is the process of identifying financial strength of the company with the help of its Profit and loss account, and Balance sheet. Reliance Industries Limited (RIL), is India's largest private sector company with business across the energy and materials value chain and a strong presence in the rapidly expanding retail and telecommunication sectors. The financial performance analysis of the company is done for the period of five years, starting from the financial year 2014-15 to 2018-19. The objective of this study to measure the liquidity of Reliance Industries Ltd.,to interpret the financial performance of the Reliance Industries Ltd. in terms of short term liquidity, to suggest appropriate measures for the improvement of the financial performance of Reliance Industries Ltd.,to know whether the business is making profit or not, is maintaining liquidity position, and know the dividend growth of the company.*

Key Words: *Balance Sheet, Profit and Loss Account, Profitability, Ratios, Trend analysis.*

1. INTRODUCTION :

In finance, capital structure refers to the system where a company finances its assets through some combination of equity, debt, or mixed securities. A firm's capital structure is the composition or 'structure' of its liabilities. In reality, capital structure may be highly complex and include dozens of sources.

Whereas, financial ratios are typically used in the process of analyzing trends and also for comparing the company's financial position to other firms The financial ratios are primarily tools for turning the data enclosed in financial statements into information used by managers and executives to better comprehend what is happening in a company. Financial ratios are highly advantageous indicators of an organisation's performance as well as financial environment. The total capital of a company comprises of fixed capital and working capital. The emphasis has ever been on the growth and efficiency of fixed capital.

There are many ways to measure the financial strength of a company. The key is identifying the right measurement tools for the company, taking into consideration: the industry, life cycle, time horizon, business objectives, and economic conditions. It is also important to understand your company's financial performance relative to its industry as all companies compete in the marketplace on a local, regional, national or international level. Analysis of financial statements aims at identifying the financial strengths and weaknesses of a firm by properly establishing relationships between the items of the balance sheet and profit &loss account. It helps management to evaluate the performance of the concern and also guides the management to formulate sound financial policy.

The nature of analysis differs depending upon the purpose of the analyst. Trade creditors are interested to evaluate the firm's liquidity position in order to receive their claim in time. Long-term creditors and investors concentrate on the present and future solvency and profitability position. Management of the firm would be interested to evaluate the every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm have been used most effectively and efficiently and that the firm's financial condition is sound. Efficiency and cost control are keys to success in many companies throughout the world.

The term financial strength' means the vitality, soundness, liquidity and solvency etc. of a business concern from the financial point of view, It has references to the ability of a concern:

- To meet the claims of creditors not only under current economic and business condition, but also under unfavourable situations that may occur in future.
- To take advantage of business dealings or expansions which require presently owned resources, additional funds obtained through the sale of long-term debt obligations and capital stock, or a favourable credit rating and
- To continue interest and dividend payments without interruption.

2. JUSTIFICATION OF RESEARCH TOPIC: The study has academic and practical significance. The study focuses on the performance of liquidity of the Indian conglomerate holding company "**Reliance Industries Limited**" in particular. The purpose of research is to discover the answer to the questions through the applications of scientific procedures.

- The study is to gain practical knowledge about analysis of short term liquidity and financial strength of Reliance Industries Limited.
- To analyze profitability, liquidity and solvency of Reliance Industries Limited.
- To suggest measures for effective management of working capital.

3. OBJECTIVES OF STUDY:

The mandatory objective is the analysis of financial strength in terms of short-term liquidity in Reliance Industries Ltd. i.e. to investigation of financial performance of such company will reveal inside story of such excellent performance in Indian context and set benchmark for Indian electricity industry. With this broad objective the specific objectives of the study are as follows:-

- To measure the liquidity of ***Reliance Industries Ltd***.
- To interpretate financial performance of the ***Reliance Industries Ltd***. in terms of short term liquidity.
- To suggest appropriate measures for the improvement of the financial performance of ***Reliance Industries Ltd***.

4. SWOT ANALYSIS:

Strengths in the SWOT Analysis of Reliance:

- **Strong market position in various categories:** RIL is the first Indian private sector company to feature into the Fortune Global 500. With leading market position in many of its businesses, Reliance is a business giant in India with strong positions in Textile, energy, Retail etc. Reliance has also entered Telecom industry in India with Jio and is sweeping the market.
- Brand **Name and financial position allow RIL to expand:** Reliance is a strong brand name and capital position which allows it to expand its businesses and also venture into newer businesses.
- **The operational advantage in refining:** RIL has the world's largest oil refinery in Jamnagar and is one of the world's largest private owned refining companies. With the use of latest technology, Reliance's refinery in Jamnagar is operationally efficient which gives great benefits for Reliance as it gets higher yields.
- **Expansion in the retail industry:** Reliance Retail (RRL) is expanding throughout the country with putting emphasis on backwards integration. With great improvements in the value chain from procurement from farmers to selling to customers, Reliance has increased its revenues substantially and was the largest Indian retailer in FY 2015.
- **Reliance Jio:** Reliance Jio has set the telecom industry by a storm. Reliance has laid out a superlative infrastructure for 4G wireless services throughout the nation which has provided it with the immense competitive advantage. Jio has also helped Reliance enhance its brand image and become a mass popular brand.

Weaknesses in the SWOT Analysis of Reliance:

- **Production declining in exploratory blocks:** RIL's gas production from two of its major plants, KG-D6 project and Tapti Fields is decreasing due to various natural and operational challenges. A decrease in production affects supply and operational margins.
- **Recent divesting and relinquishing activities affects growth:** RIL recently divested in some of its production sharing contracts in Dubai, Yemen etc. This affects global expansion plans for RIL.
- **Legal proceedings and litigations:** RIL has been subjected to various legal proceedings and litigations in the past. Recently, RIL has had to pay a hefty penalty amount to the government. Such instances impact the reputation of the company.

Opportunities in the SWOT Analysis of Reliance:

- **New Plants:** RIL has commissioned a few new plants recently, for instance, PET resin plant and Purified Terephthalic Acid (PTA) plant at Dahej, Gujarat. Expanding its operations facilities will further increase production and strengthen RIL's position in the market.
- **Investing in attractive** international **oil and gas destinations:** In 2015, RIL won the bid for Myanmar Offshore block with 96% interest. RIL should continue making such investments to expand its operations globally.
- **CBM as unconventional natural gas:** CBM is a natural gas extracted from coal beds. RIL has two CBM blocks under it and is set to utilise CBM as the unconventional natural gas resource.

- **New offers in Reliance Jio:** Mukesh Ambani's pet project Reliance Jio has already become one of the nation's largest telecom networks. Reliance Jio needs to bring out new offers and a retention policy to retain the customers who might as well drop Jio for another offer from other telecom giants.

Threats in the SWOT Analysis of Reliance:

- **Intense competition in all sectors:** RIL faces strong competition from various state-owned companies in the Oil, Petroleum and Gas industries. IOC, HPCL and BPC are state owned companies which are its biggest competitors.
- **In Retail**, RIL faces stiff competition from the Future group, D-Mart etc. Such competition limits market share.
- **In telecom**, Jio is up against the giants of the industry like Vodafone, Airtel and Idea. These companies are looking for a chance to regain customers lost to Jio.
- Reliance Jio free offers ending: Reliance Jio has provided the customers with free data and calling offers in its introductory package and has extended the offers a few times. Now, these offers are about to end very soon. This will test the retaining capacity of Reliance Jio.

Table.1 . Balance Sheet of Reliance Industries of Last 5 Years (2015-1019)

in Rs. Cr.

YEAR	2014-15	2015-16	2016-17	2017-18	2018-19
EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	3,236.00	3,240.00	3,251.00	6,335.00	6,339.00
Total Share Capital	**3,236.00**	**3,240.00**	**3,251.00**	**6,335.00**	**6,339.00**
Reserves and Surplus	2,12,923.00	2,36,936.00	2,85,058.00	3,08,297.00	3,98,983.00
Total Reserves and Surplus	**2,12,923.00**	**2,36,936.00**	**2,85,058.00**	**3,08,297.00**	**3,98,983.00**
Total Shareholders Funds	**2,16,159.00**	**2,40,176.00**	**2,88,309.00**	**3,14,632.00**	**4,05,322.00**
Equity Share Application Money	17	8	4	15	0
NON-CURRENT LIABILITIES					
Long Term Borrowings	76,227.00	77,866.00	78,723.00	81,596.00	1,18,098.00
Deferred Tax Liabilities [Net]	12,677.00	13,159.00	24,766.00	27,926.00	47,317.00
Other Long Term Liabilities	0	0	0	504	504
Long Term Provisions	1,404.00	1,489.00	2,118.00	2,205.00	2,483.00
Total Non-Current Liabilities	**90,308.00**	**92,514.00**	**1,05,607.00**	**1,12,231.00**	**1,68,402.00**
CURRENT LIABILITIES					
Short Term Borrowings	12,914.00	14,490.00	22,580.00	15,239.00	39,097.00
Trade Payables	54,470.00	54,521.00	68,161.00	88,675.00	88,241.00
Other Current Liabilities	19,063.00	54,841.00	60,817.00	85,815.00	73,900.00
Short Term Provisions	4,854.00	1,170.00	1,268.00	918	783
Total Current Liabilities	**91,301.00**	**1,25,022.00**	**1,52,826.00**	**1,90,647.00**	**2,02,021.00**
Total Capital And Liabilities	**3,97,785.00**	**4,57,720.00**	**5,46,746.00**	**6,17,525.00**	**7,75,745.00**
ASSETS					
NON-CURRENT ASSETS					
Tangible Assets	79,778.00	91,477.00	1,45,486.00	1,91,879.00	1,94,895.00
Intangible Assets	34,785.00	39,933.00	9,092.00	9,085.00	8,293.00
Capital Work-In-Progress	65,178.00	97,296.00	1,28,283.00	92,581.00	1,05,155.00
Intangible Assets Under Development	10,575.00	9,583.00	4,458.00	6,902.00	6,402.00
Fixed Assets	**1,90,316.00**	**2,38,289.00**	**2,87,319.00**	**3,00,447.00**	**3,14,745.00**
Non-Current Investments	62,058.00	1,12,630.00	1,40,544.00	1,71,945.00	2,71,980.00
Long Term Loans And Advances	29,259.00	16,237.00	10,418.00	17,699.00	31,806.00
Other Non-Current Assets	0	0	2,184.00	3,522.00	4,287.00
Total Non-Current Assets	**2,81,633.00**	**3,67,156.00**	**4,40,465.00**	**4,93,613.00**	**6,22,818.00**
CURRENT ASSETS					
Current Investments	50,515.00	39,429.00	51,906.00	53,277.00	59,556.00
Inventories	36,551.00	28,034.00	34,018.00	39,568.00	44,144.00
Trade Receivables	4,661.00	3,495.00	5,472.00	10,460.00	12,110.00
Cash And Cash Equivalents	11,571.00	6,892.00	1,754.00	2,731.00	3,768.00
Short Term Loans And Advances	12,307.00	11,938.00	4,900.00	3,533.00	4,876.00
Other Current Assets	547	776	8,231.00	14,343.00	28,473.00
Total Current Assets	**1,16,152.00**	**90,564.00**	**1,06,281.00**	**1,23,912.00**	**1,52,927.00**
Total Assets	**3,97,785.00**	**4,57,720.00**	**5,46,746.00**	**6,17,525.00**	**7,75,745.00**

Table.2 . Profit & Loss account of Reliance Industries Limited (2015-2019)

in Rs. Cr.

YEAR	2014-15	2015-16	2016-17	2017-18	2018-19
INCOME					
Revenue From Operations [Gross]	**3,40,814.00**	**2,51,241.00**	**2,65,041.00**	**3,15,357.00**	**4,00,986.00**
Less: Excise/Service Tax/Other Levies	11,738.00	18,083.00	23,016.00	25,315.00	29,967.00
Revenue From Operations [Net]	**3,29,076.00**	**2,33,158.00**	**2,42,025.00**	**2,90,042.00**	**3,71,019.00**
Total Operating Revenues	**3,29,076.00**	**2,33,158.00**	**2,42,025.00**	**2,90,042.00**	**3,71,019.00**
Other Income	8,721.00	7,582.00	8,709.00	8,220.00	9,419.00
Total Revenue	**3,37,797.00**	**2,40,740.00**	**2,50,734.00**	**2,98,262.00**	**3,80,438.00**
EXPENSES					
Cost Of Materials Consumed	2,55,998.00	1,52,769.00	1,64,250.00	1,98,029.00	2,65,288.00
Purchase Of Stock-In Trade	7,134.00	4,241.00	5,161.00	7,268.00	8,289.00
Operating And Direct Expenses	19,693.00	17,328.00	0	0	24,839.00
Changes In Inventories Of FG,WIP And Stock-In Trade	1,943.00	4,171.00	-4,839.00	-3,232.00	-3,294.00
Employee Benefit Expenses	3,686.00	4,260.00	4,434.00	4,740.00	5,834.00
Finance Costs	2,367.00	2,454.00	2,723.00	4,656.00	9,751.00
Depreciation And Amortisation Expenses	8,488.00	9,566.00	8,465.00	9,580.00	10,558.00
Other Expenses	10,593.00	12,757.00	29,763.00	31,496.00	11,806.00
Less: Transfer to / From Investment / Fixed Assets / Others	1,573.00	2,507.00	0	0	0
Total Expenses	**3,08,329.00**	**2,05,039.00**	**2,09,957.00**	**2,52,537.00**	**3,33,071.00**
Profit/Loss Before Exceptional, Extra Ordinary Items And Tax	**29,468.00**	**35,701.00**	**40,777.00**	**45,725.00**	**47,367.00**
Profit/Loss Before Tax	**29,468.00**	**35,701.00**	**40,777.00**	**45,725.00**	**47,367.00**
Tax Expenses-Continued Operations					
Current Tax	6,124.00	7,802.00	8,333.00	8,953.00	9,440.00
Deferred Tax	625	482	1,019.00	3,160.00	2,764.00
Total Tax Expenses	**6,749.00**	**8,284.00**	**9,352.00**	**12,113.00**	**12,204.00**
Profit/Loss After Tax And Before Extra Ordinary Items	**22,719.00**	**27,417.00**	**31,425.00**	**33,612.00**	**35,163.00**
Profit/Loss From Continuing Operations	**22,719.00**	**27,417.00**	**31,425.00**	**33,612.00**	**35,163.00**
Profit/Loss For The Period	**22,719.00**	**27,417.00**	**31,425.00**	**33,612.00**	**35,163.00**
OTHER ADDITIONAL INFORMATION					
EARNINGS PER SHARE					
Basic EPS (Rs.)	70.25	84.66	96.9	53.08	55.48
Diluted EPS (Rs.)	70.25	84.66	96.73	53.04	55.47
VALUE OF IMPORTED AND INDIGENIOUS RAW MATERIALS					
Imported Raw Materials	2,32,867.00	1,40,109.00	0	0	0
Indigenous Raw Materials	23,131.00	12,660.00	0	0	0
STORES, SPARES AND LOOSE TOOLS					
Imported Stores And Spares	2,176.00	1,810.00	0	0	0
Indigenous Stores And Spares	2,526.00	2,955.00	0	0	0
DIVIDEND AND DIVIDEND PERCENTAGE					
Equity Share Dividend	2,944.00	3,095.00	0	3,255.00	3,554.00
Tax On Dividend	615	605	0	661	728

Table.3. STATEMENT OF WORKING CAPITAL (2015-2019)

PARTICULARS	2014-15	2015-16	2016-17	2017-18	2018-19
(A) CURRENT ASSETS					
Current Investments	50,515.00	39,429.00	51,906.00	53,277.00	59,556.00
Inventories	36,551.00	28,034.00	34,018.00	39,568.00	44,144.00
Trade Receivables	4,661.00	3,495.00	5,472.00	10,460.00	12,110.00
Cash And Cash Equivalents	11,571.00	6,892.00	1,754.00	2,731.00	3,768.00
Short Term Loans And Advances	12,307.00	11,938.00	4,900.00	3,533.00	4,876.00
Total Current Assets	**1,16,152.00**	**90,564.00**	**1,06,281.00**	**1,23,912.00**	**1,52,927.00**
Other Current Assets	547	776	8,231.00	14,343.00	28,473.00
(B) CURRENT LIABILITIES					
Short Term Borrowings	12,914.00	14,490.00	22,580.00	15,239.00	39,097.00
Trade Payables	54,470.00	54,521.00	68,161.00	88,675.00	88,241.00
Other Current Liabilities	19,063.00	54,841.00	60,817.00	85,815.00	73,900.00
Short Term Provisions	4,854.00	1,170.00	1,268.00	918	783
Total Current Liabilities	**91,301.00**	**1,25,022.00**	**1,52,826.00**	**1,90,647.00**	**2,02,021.00**
WORKING CAPITAL (A-B)	24,851	-34,458	-46,545	-66,735	-49,094

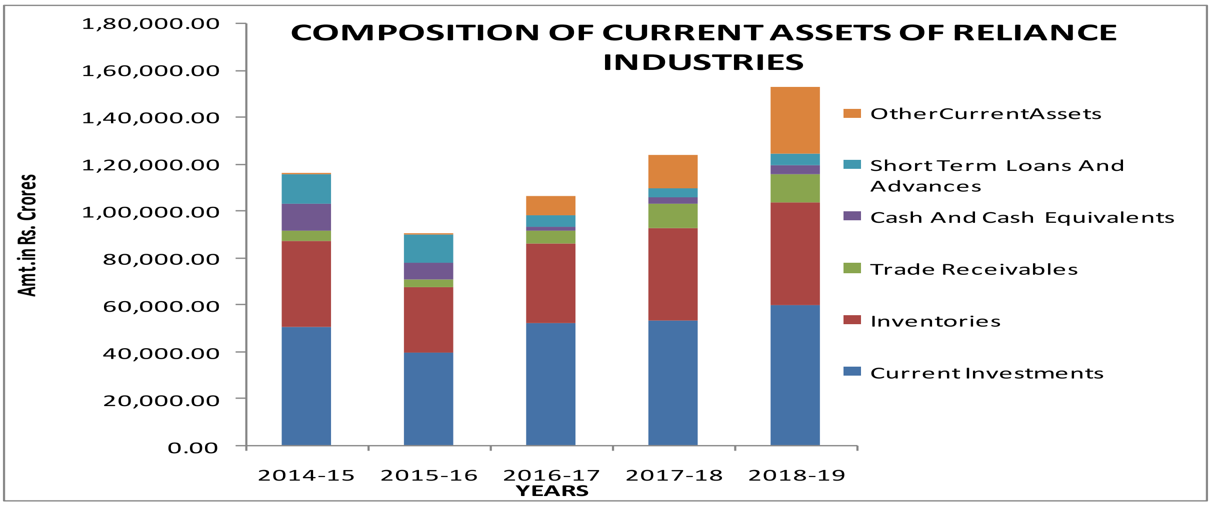

Chart.1

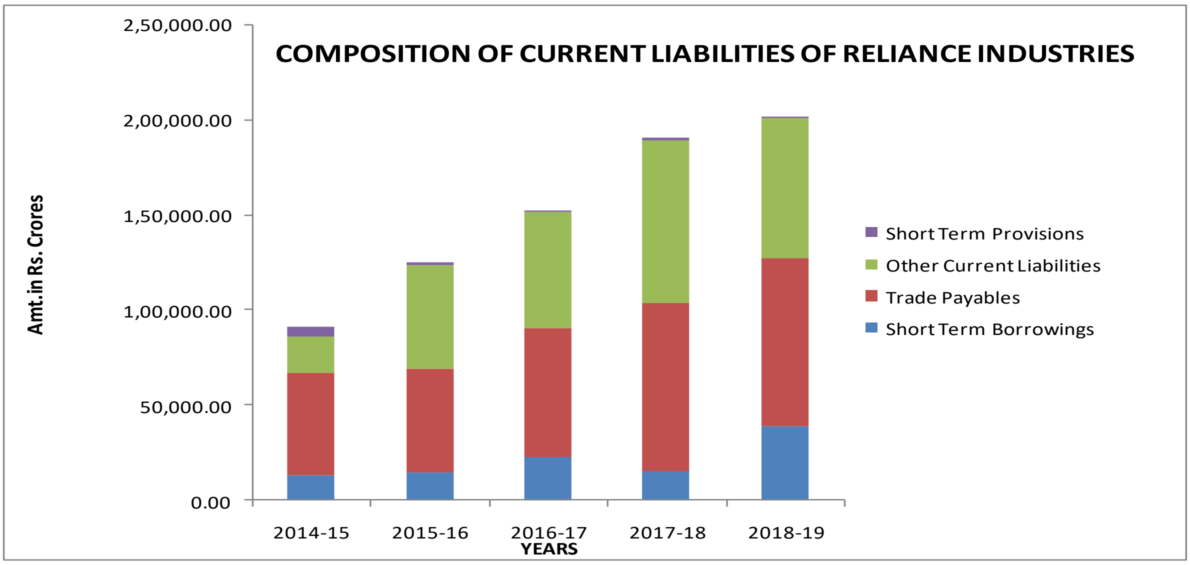

Chart.2

5. ANALYSIS OF THE PROJECT:

In order to determine the financial strength of **Reliance Industries Limited** on the front of short term liquidity, we have accumulated data for the last five years and tried to analyze the same. In this way it will be easy to understand

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the nature of change (if any) in the liquidity situation of the organisation. Here are various liquidity ratios for the past five years and examine the findings.

A) Analysis of Short Term Financial Position or Liquidity Ratios

CURRENT RATIO

Current Ratio is a general and quick measure of liquidity of a firm. It represents the margin of safety or cushion available to the creditors. It is an index of the firm's financial stability. It is also an index of technical solvency and an index of the strength of working capital. A ratio equal to or near 2: 1 is considered as a standard or normal or satisfactory. The idea of having compared to current liabilities is to provide for the delays and doubled the current assets as losses in the realization of current assets.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

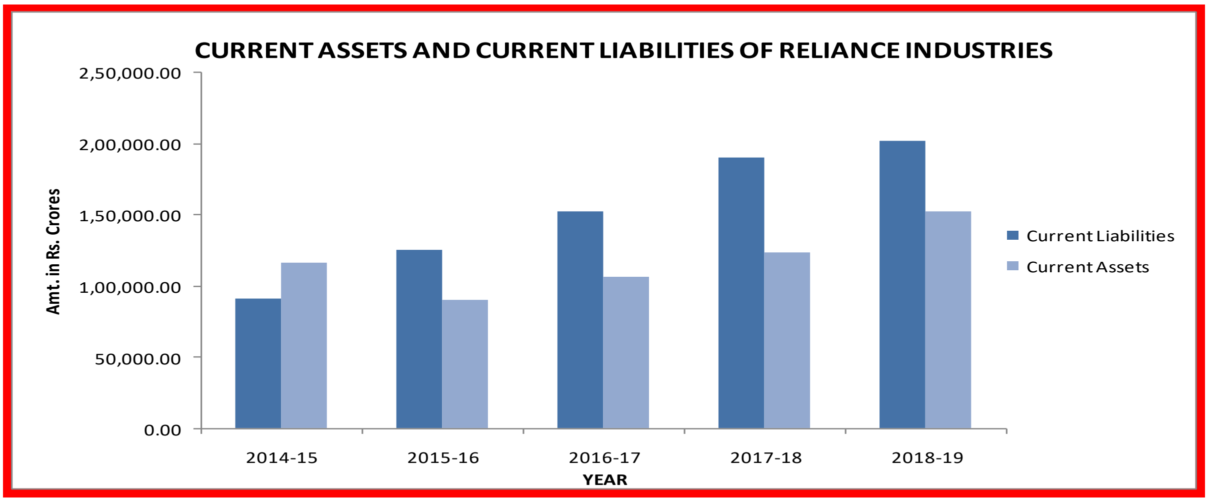

Chart. 3

TABLE.4

CALCULATION AND INTERPRETATION OF CURRENT RATIO					
					in Rs. Cr
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Total Current Assets	**1,16,152.00**	**90,564.00**	**1,06,281.00**	**1,23,912.00**	**1,52,927.00**
Total Current Liabilities	**91,301.00**	**1,25,022.00**	**1,52,826.00**	**1,90,647.00**	**2,02,021.00**
Current Ratio	0.64	0.45	0.35	0.38	0.41

According to table the value of the current ratio is below the ideal value and is constantly falling and is at danger level as it has reached below 1:1. But during the year 2018-1019, it has started to increase a bit which is a positive sign. But it is very important for the business to maintain their current assets otherwise it might prove to be dangerous for the company.

QUICK RATIO

Quick ratio is also known as liquid ratio or acid test ratio. This ratio measures the liquidity of a business by matching its cash and near cash current assets with its total liabilities. It helps us to determine whether a business would be able to pay off all its debts by using its most liquid assets (i.e. cash, marketable securities and accounts receivable). Rule of thumb for acid test ratio is 1:1 i.e., if business liquid assets are 100 percent of its current liabilities it is considered to be having fairly good current financial position.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

TABLE . 5

CALCULATION AND INTERPRETATION OF QUICK RATIO

in Rs. Cr.

PARTICULARS	2014-15	2015-16	2016-17	2017-18	2018-19
Quick Assets	28,539	22,325	12,126	16,724	20,754
Current Liabilities	**91,301.00**	**1,25,022.00**	**1,52,826.00**	**1,90,647.00**	**2,02,021.00**
Quick ratio	0.31	0.18	0.08	0.09	0.1

The trend for quick ratio is quite similar as that of current ratio. It is observed that the quick ratio is also below the mark of 1:1 which is the ideal quick ratio. Just like the current ratio, the quick ratio is also declining but gives a sign of improvement in the year 2018-2019. But looking at the figures, it is still lower than the ideal quick ratio which is 1:1. This indicates that the company's ability to pay off their liabilities in the short-term is not that well.

ABSOLUTE LIQUIDITY RATIO

Liquid ratio measures the relationship between cash and near cash items on the one hand and immediately maturing obligations on the other. But as the composition of cash and near cash items, in the calculation of liquid ratio, comprises of accounts receivable also, doubts have been expressed about the efficacy of the ratio as an unblemished tool for measuring liquidity position of a firm. Therefore, a real measure of liquidity for the company in study will be the ratio between cash, debtors ageing less than six months, loan and advance and marketable securities to immediate maturing obligations which are termed as Absolute Liquidity Ratio. In case of Reliance Industries Ltd, if debtors ageing more than six months (considering them defaulters as the time limit has exceeded normal credit period) are excluded from the amount of current assets. A true picture of liquidity may come out. The normal for such ratio is taken to be 1:2 has on hand to meet its current liabilities.

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

TABLE . 6

CALCULATION AND INTER PRETATION OF ABSOLUTE LIQUIDITY RATIO

in Rs. Cr.

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Absolute Liquid Assets	23,878	18,830	6,654	6,264	8,644
Current Liabilities	**91,301.00**	**1,25,022.00**	**1,52,826.00**	**1,90,647.00**	**2,02,021.00**
Absolute Liquid Ratio	0.26	0.15	0.04	0.03	0.04

According to table the cash position of Reliance Industries Ltd. is not in a good shape as the absolute liquid assets (which are cash, cash equivalents and marketable securities) are very less in comparison of the current liabilities. The ideal Absolute liquid ratio is 1:2 but this ratio is decreasing every progressing year, which indicates the need to improve the cash position and liquidity of the business as it is not a good sign for the business as it leads to increase in the cost of capital.

CASH RATIO

The position of cash in current assets has been analyzed through this ratio. Here 'cash' includes cash and cash equivalents and marketable securities also. This ratio reveals how much amount of immediate liquid assets are available against each rupee of Current Assets. Naturally, higher the ratio better is the liquidity position. But too high ratio means under- utilization of immediate liquid assets which impairs firm's profitability. i.e. Liquidity- Profitability triangle. In other words, if we want to maintain liquidity, profitability suffers, and, if we want to maintain profitability, liquidity suffers. So, an optimum position must be maintained so that there will not be a conflict between the two. It can be assumed that the standard for this ratio may be 0.2: can be expressed as follows:

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Cash Equivalents} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

TABLE . 7

CALCULATION AND INTERPRETATION OF CASH RATIO					
					in Rs. Cr.
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Cash And Cash Equivalents	11,571.00	6,892.00	1,754.00	2,731.00	3,768.00
Total Current Liabilities	**91,301.00**	**1,25,022.00**	**1,52,826.00**	**1,90,647.00**	**2,02,021.00**
Cash Ratio	0.12	0.06	0.01	0.01	0.02

As the table indicates that the cash ratio is gradually decreasing from the year 2014-2015 till 2018-2019 and is below the ideal cash ratio(which is 0.5 to 1), but has shown some signs of improvement in the final year of evaluation. The company is strongly suggested to look into this matter to fix the value of their average of their cash ratio.

B) ANALYSIS OF COMPANIES EFFICIENCY OR MOVEMENT OF CURRENT ASSETS

INVENTORY TURNOVER RATIO

Inventory turnover ratio or Stock turnover ratio indicates the velocity with which stock of as number of times the average finished goods is sold i.e. replaced. Generally it is expressed or rotates of during the year. High turnover suggests efficient stocks has been "turned over" inventory control, sound sales policies, trading in quality goods, reputation in the market, better competitive capacity and so on. Low turnover suggests the possibility of stock over investment in comprising of obsolete items, slow moving products, poor selling policy, stock etc.

$$\text{Inventory Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Inventory}}$$

TABLE .8

CALCULATION AND INTERPRETATION OF INVENTORY TURNOVER RATIO					
					in Rs. Cr.
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Net sales	3,29,076.00	2,33,158.00	2,42,025.00	2,90,042.00	3,71,019.00
Inventories	36,551.00	28,034.00	34,018.00	39,568.00	44,144.00
Inventory Turnover Ratio	9	8.31	7.11	7.33	8.4

Table reflects the inventory turnover ratio of reliance industries limited. According to the table, we can say that the ratio is higher than ideal which is 4-6 times, but different companies have different stock requirements. The inventory turnover ratio was quite stable throughout the 5 years and does not show any signs of high fluctuations. By looking at these ratios throughout the years, we can say that the ratio indicates that the company will not run out of stock to sell.

DEBTORS TURNOVER RATIO

Debtors Turnover measures the efficiency of a business in collecting its credit sales. It is an activity efficiency ratio and it measures average number of times a business or collects its accounts receivables in a period usually a year. Generally high value of accounts a receivable turnover is favourable and lower figure may indicate inefficiency in collecting outstanding sales but a normal level of receivables turnover is different for different industries. Increase in accounts receivable turnover overtime indicates improvement in credit sales collection process. Average collection period is a tool to aid in the analysis of company's credit policy and the quality of the debtors more clearly. Debtors are often the largest current assets of an enterprise.

$$\text{Debtors Turnover Ratio} = \frac{\text{Net sales}}{\text{Trade receivables}}$$

TABLE .9

CALCULATION AND INTERPRETATION OF DEBTORS TURNOVER RATIO					
					in Rs. Cr
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Net Sales	3,29,076.00	2,33,158.00	2,42,025.00	2,90,042.00	3,71,019.00
Trade Receivables	4,661.00	3,495.00	5,472.00	10,460.00	12,110.00
Debtors Turnover Ratio	70.6	66.71	44.23	27.72	30.63

According to table the debtor turnover ratio of Reliance Industries Limited is pretty high in the beginning, which is a good sign. But every year it is gradually decreasing which is not good for the business. However, in the final year which is 2018-2019 the ratio has slightly improved which shows that the company is taking measures to improve this side of their business. The falling figures represent the inefficiency in the collection of outstanding sales.

CREDITORS TURNOVER RATIO

Accounts payable turnover is the ratio of net credit purchases of a business to its average liquidity of business since it accounts payable during the period. It measures short term an amount equal to average accounts payable is paid shows how many times during a period, to suppliers by a business. Accounts payable turnover is a measure of short-term liquidity. A higher value indicates that the business was able to repay its suppliers quickly. Thus higher value of accounts payable turnover is favourable.

$$\text{Creditors Turnover Ratio} = \frac{\text{Purchases}}{\text{Trade Creditors}}$$

TABLE .10

CALCULATION AND INTERPRETATION OF CREDITORS TURNOVER RATIO					
					in Rs. Cr.
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Purchases	2,67,834.00	1,61,775.00	1,74,446.00	2,10,673.00	2,79,921.00
Trade Payables	54,470.00	54,521.00	68,161.00	88,675.00	88,241.00
Creditors Turnover Ratio	4.9	3	2.6	2.3	3.1

As the table indicates, the creditor's turnover ratio is constantly declining and this indicates that the company is taking longer time to pay off their creditors. A decreasing ratio could signal that a company is in financial distress. Alternatively, a decreasing ratio could also mean the company has negotiated different payment arrangements with its suppliers. However, in the final years the company has shown the signs of improvement.

WORKING CAPITAL TURNOVER RATIO

Working Capital is measure of company efficiency and operating liquidity. The working capital is usually calculated by subtracting Current Liabilities from Current Assets. It is important indicator of the firm ability to continue its normal operations without additional debt obligations. In general terms, companies that have a lot of working capital will experience more growth in the near future since they can expand and improve their operations using existing resources. Working Capital also shows if the company has sufficient liquid resources to satisfy short-term liabilities and operational expenses. This ratio represents the number of times the working capital is turned over in the course of year. This ratio is calculated as:

$$\text{Working Capital Turnover Ratio} = \frac{\text{Cost Of Sales}}{\text{Net Working Capital}}$$

TABLE .11

in Rs. Cr.

PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Total Current Assets	**1,16,152.00**	**90,564.00**	**1,06,281.00**	**1,23,912.00**	**1,52,927.00**
Total Current Liabilities	**91,301.00**	**1,25,022.00**	**1,52,826.00**	**1,90,647.00**	**2,02,021.00**
Working Capital	24,851	-34,458	-46,545	-66,735	-49,094

As the company's working capital is in negative because the current liabilities exceed the current assets of the company. Negative working capital is when a company's current liabilities exceed its current assets. This means that the liabilities that need to be paid within one year exceed the current assets that are monetizable over the same period. When the working capital turns negative, so does the working capital turnover ratio. Because a company's sales cannot be negative, only negative working capital makes the working capital turnover ratio negative. A negative working capital turnover ratio is typically meaningless and cannot be compared across companies.

CASH ASSET RATIOS

The cash asset ratio is the current value of marketable securities and cash, divided by the company's current Assets. Also known as the cash assets ratio, the cash asset ratio compares the amount of highly liquid assets (such as cash and marketable securities) to the amount of short-term liabilities. This figure is used to measure a firm's liquidity or its ability to pay its short-term obligations. Although a high cash to current assets ratio is a good sign. It shows that a higher portion of the firm's current assets is in the form of cash and other highly liquid assets. This ratio is calculated as:

$$\text{Cash to Current Assets Ratio} = \frac{(\text{Cash and Cash euivalents} + \text{Marketable securities})}{\text{Total Current Assets}}$$

TABLE.12

CALCULATION AND INTERPRETATION OF CASH ASSET RATIO					
					in Rs. Cr.
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Cash and Marketable Sec.	23,878	18,830	6,654	6,264	8,644
Total Current Assets	**1,16,152.00**	**90,564.00**	**1,06,281.00**	**1,23,912.00**	**1,52,927.00**
Cash Asset Ratio	0.21	0.21	0.06	0.05	0.06

According to the table, the decreasing cash asset ratio indicates that the liquidity (in terms of cash and other highly liquid instruments) of Reliance Industries Limited has been in a decreasing fashion which questions the decisions taken by the management regarding the liquidity of the firm.

CURRENT ASSETS TURNOVER RATIO:

Current assets turnover ratio is an efficiency measurement accountants apply to a company's financial statements. The result from this formula is a metric that indicates how well a company generates sales revenue from the current assets it owns. A higher number is generally preferable as the company uses its assets in the most efficient manner possible. This ratio can be calculated by following formula:

$$\text{Current Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Current Assets}}$$

TABLE .13

CALCULATION AND INTERPRETATION OF CURRENT ASSET TURNOVER RATIO					
					in Rs. Cr.
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Net Sales	3,75,435.00	2,93,298.00	3,05,382.00	3,91,677.00	5,67,135.00
Current Assets	**1,16,152.00**	**90,564.00**	**1,06,281.00**	**1,23,912.00**	**1,52,927.00**
Current Asset Turnover Ratio	3.2	3.2	2.9	3.2	3.7

Table indicates that the company has a very stable conversion of their current assets into sales. As we can observe, the current asset turnover ratio is moving at a constant rate throughout the years. Higher asset turnover ratio is preferred as it reflects more efficient asset utilization and the current asset turnover ratio of Reliance Industries Limited is pretty high.

C) Analysis of Companies General Profitability:

NET PROFIT RATIO

This ratio shows the earning left for both equity and preference shareholders as a percentage of net sales. This ratio measures the overall efficiency of production, administration, selling and distribution, financing, pricing, tax management etc. A high net profit ratio is desirable as higher return to the owners. It also implies that the company will be it usually ensures a capable of withstanding any unfavourable condition which may take place in future. A low net profit ratio, on the other hand, is a red signal for the company. However, a profit ratio, on the other hand, is definitely high rate of return on investment if it has a higher inventory turnover; it can earn a company with a low net profit margin higher inventory turnover. The net profit margin should be evaluated with reference to turnover ratio. It is defined as:

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$$\text{Net-Profit Ratio} = \frac{\text{Net profit after Tax}}{\text{Net Sales}} \times 100$$

TABLE .14

CALCULATION AND INTERPRETATION OF NET PROFIT RATIO					
					in Rs. Cr.
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Net Profit	**22,719.00**	**27,417.00**	**31,425.00**	**33,612.00**	**35,163.00**
Net Sales	3,29,076.00	2,33,158.00	2,42,025.00	2,90,042.00	3,71,019.00
Net Profit Ratio	6.9	11.75	12.98	11.58	9.47

According to the table, the net profit ratio of Reliance Industries was quiet low in the beginning but increased during the mid years which were 2014-15 and 2015-16 but then again sharply declined after two consecutive years which were 2017-2018 and 2018-2019. A company with a lower net profit margin can earn a high rate of return on investment if it has a higher inventory turnover.

OPERATING PROFIT RATIO

For capital-intensive industry like electricity, depreciation is a major element of total cost. Operating profit may be defined as the earnings left after meeting all operating expenses including depreciation. It excludes all non- operating income and expenses. This ratio measures the operating efficiency of the company. The ratio expresses the relationship between operating profit and net sales. It is calculated as:

$$\text{Operating Profit Ratio} = \frac{\text{Operationg Profit}}{\text{Net Sales}} \times 100$$

TABLE . 15					Rs.in Cr.
PARTICULARS	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Operating Profit	**31,602.00**	**40,139.00**	**43,256.00**	**51,741.00**	**58,257.00**
Net Sales	5,67,135.00	3,91,677.00	3,05,382.00	2,93,298.00	3,75,435.00
Operating Profit Ratio	5.57	10.24	14.16	17.64	15.51

The table shows the operating profit ratio of Reliance Industries Limited. The operating profit ratio is very fluctuating and is highest in the year 2017-2018 but suddenly decline on the year 2018-2019. This shows that the operating profit has been decreasing in relation to the net sales of the year from 2017-18 to 2018-19. However the operating profit ratio is still higher than the first three years which is a sign of relief.

6. FINDINGS:

Findings related to the short-term liquidity:

- The current ratio is decreasing in the first 3 years of the study and then it started to rise up which is a sign of improvements.
- The current liabilities are increasing whereas the current assets are variable.
- The quick ratio is also decreasing for the first 3 years and then started to rise up.
- The value of absolute cash of Reliance Industries is decreasing which is also influencing the ratio as well.

Findings related to the efficiency:

- The inventory turnover ratio is in a positive state. It however was decreasing for the first three years but caught an increasing pace after the year (2015-2016).
- The debtor turnover ratio is falling gradually and this reflects the inefficiency in converting outstanding sales.
- The creditor turnover ratio is also decreasing. This indicates that the company is not paying off their creditors quickly.
- The working capital of reliance industries is in negative state which means that the current liabilities exceed over the current assets and therefore the calculation of working capital turnover ratio is irrelevant.
- The cash assets ratio is gradually declining which means that the company is losing its short-term liquidity.

Findings related to profitability:

- The net-profit ratio shows a bell like trend on the graph as the ratio gradually rises up in between the years of study.
- The net-profit ratio is satisfactory but the company should focus on the cause of its decline in the year (2018-19).
- The operating profit ratio shows an increasing trend in the first four years but then started to fall in the year (2018-19).

7. SUGGESTIONS:

The financial performance analysis identifies the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. The first task is to select the information relevant to the decision under consideration from the total information contained in the financial statements. In short, "financial performance analysis is the process of selection relation and evaluation."

- The company should reduce the amount of current liabilities and increase the amount of current assets up to reasonable level.
- The liquidity position of the company is not good. All the ratios of the liquidity are declining every year. Therefore, it is suggested that the company should take necessary steps to maintain its liquidity.
- The working capital is negative for the last 4 years and this shows that the current liabilities exceeds over the current assets which is not good for the long-term. It is suggested that the company should try to lower their current liability or increase the sources of current assets.
- The company should try to improve their profitably and set a new benchmark for the industry in the Indian context.
- It is suggested that the company should try to reduce its operating expenses so that the operating profit ratio increases and the profitability improves as well.
- The cash position of the company is also not good. It is suggested that the company should focus on the improvement of their liquid assets.
- The creditor turnover ratio is also decreasing which means that the company is unable to pay off their creditors on time.
- The fall in debtor's turnover ratio represent the inefficiency in the collection of outstanding sales. Therefore to improve the quality of the outstanding sales, the company should try to control their outstanding sales.

Thus to conclude, the study results in that the liquidity position of company is not good. The profitability position of the company is at an improvement stage and can be controlled.

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