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Financial analysis of Reliance Industries Limited with Respect to Profitability and liquidity Performance

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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 four years period, ranging from the financial year 2018-19 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.*

Key Words: *Financial Health, Liquidity, Profitability and Operational efficiency.*

1. INTRODUCTION:

Meaning of Financial Statement

Financial statements refer to such statements which contains financial information about an enterprise. They report profitability and the financial position of the business at the end of accounting period. The team financial statement includes at least two statements which the accountant prepares at the end of an accounting period. The two statements are: -

- The Balance Sheet
- Income statement (profit and loss account)

They provide some extremely useful information to the extent that balance Sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owners equity, and so on and the Profit and Loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the cost incurred during the year. Thus the financial statement provides a summarized view of financial position and operations of a firm

Meaning of Financial Analysis

The first task of financial analysis is to select the information relevant to the decision under consideration to the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusions. Financial statement is the process of selection, relation and evaluation.

2. METHOD:

- The study used a descriptive research design for the purpose of getting an insight over the issue. It is to provide an accurate picture of some aspects of market environment. Descriptive research is used when the objective is to provide a systematic description that is as factual and accurate as possible.

- Method of Data Collection: Secondary Data: Through the internet and published data and reports.

3. LIMITATION OF THE STUDY

Financial statements contain numerous estimates. Estimates are used in determining the allowance for uncollectible receivables, periodic depreciation, the costs of warranties, and contingent losses. To the extent that these estimates are inaccurate, the financial ratios and percentages are inaccurate.
The study collect only secondary data not using primary data.
Only four years have been selected for the study.
Only the tools of ratio analysis, trend analysis has been used for getting the results.

4. OBJECTIVE:

- To understand the information contained in financial statements with a view to know the strength or weaknesses of the firm and to make forecast about the future prospects of the firm and thereby enabling the financial analyst to take different decisions regarding the operations of the firm.

5. TOOLS OF FINANCIAL STATEMENT ANALYSIS:

Various tools are used to evaluate the significance of financial statement data. Three commonly used tools are these:

- Ratio Analysis
- Funds Flow Analysis
- Cash Flow Analysis
- Ratio Analysis:

Fundamental Analysis has a very broad scope. One aspect looks at the general (qualitative) factors of a company. The other side considers tangible and measurable factors (quantitative). This means crunching and analyzing numbers from the financial statements. If used in conjunction with other methods, quantitative analysis can produce excellent results.
Ratio analysis isn't just comparing different numbers from the balance sheet, income statement, and cash flow statement. It's comparing the number against previous years, other companies, the industry, or even the economy in general. Ratios look at the relationships between individual values and relate them to how a company has performed in the past, and might perform in the future.

6. ANALYSIS AND INTERPRETATION:

Calculation and Interpretation of Ratios

1] Current Ratio:

Formula:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
Current assets	152864.00	166597.00	210719.00	222398.00
Current liabilities	202021.00	310183.00	201787.00	200982.00
Current ratio	0.76	0.54	1.04	1.11

In Reliance Industries Ltd. the current ratio is 1.11:1 in 2021-2022. It means that for one rupee of current liabilities, the current assets are 1.11 rupee is available to the them. In other words the current assets are 1.11 times the current liabilities.
Almost 4 years current ratio is same but current ratio in 2021-2022 is bit higher, which makes company sounder. The consistency increase in the value of current assets will increase the ability of the company to meets its obligations & therefore from the point of view of creditors the company is less risky.
Thus, the current ratio throws light on the company’s ability to pay its current liabilities out of its current assets. The Reliance Industries Ltd. has a goody current ratio.

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2] Liquid Ratio:

Formula:

$$\text{Liquid ratio} = \frac{\text{Quick assets}}{\text{Quick liabilities}}$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
Quick assets	108720.00	127795.00	173282.00	176475.00
Quick liabilities	202021.00	310183.00	201787.00	200982.00
Liquid ratio	0.54	0.41	0.86	0.88

The liquid or quick ratio indicates the liquid financial position of an enterprise. Almost in all 4 years the liquid ratio is not good, which is not better for the company to meet the urgency. The liquid ratio of the Reliance Industries Ltd. has increased from 0.86 to 0.88 in 2021-2022 which shows that company follow low liquidity position to achieve high profitability.

This indicates that the dependence on the long-term liabilities & creditors are more & the company is following an aggressive working capital policy.

Liquid ratio of Company is not favorable because the quick assets of the company are less than the quick liabilities. The liquid ratio shows the company's ability to meet its immediate obligations promptly.

3] Gross Profit Ratio:

Formula:

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} * 100$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
Gross profit	101202.00	85681.00	69444.00	100089.00
Net sales	385501.00	350880.00	265069.00	445375.00
Gross profit Ratio	26.25	24.42	26.20	22.47

Comments:

The gross profit is the profit made on sale of goods. It is the profit on turnover. Gross profit ratio is 22.47% in the year of 2021-2022. It has decreased to 3.73% in the year 2021-2022 due to increase in sales with corresponding more increase in cost of goods sold.

Although the gross profit ratio is declined during the years 2018-2019 to 2021-2022. The net sales and gross profit is continuously increasing from the year 2018-2019 to 2021-2022.

4) Net Profit Ratio:

Formula:

$$\text{Net profit ratio} = \frac{\text{NPAT}}{\text{Net sales}} * 100$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
NPAT	44783.00	41667.00	43801.00	48174.00
Net sales	385501.00	350880.00	265069.00	445375.00
Net profit ratio	11.62	11.88	16.52	10.82

Comments:

The net profit ratio of the company is low compare to gross profit ratio in all year but the net profit is increasing order from this ratio of first 3 years it has been observe that the from 2018-2019 to 2020-2021. the net profit is increased and it decreased in the last year.

Profitability ratio of company shows considerable increase in 3 years and decreased in the last year. At the same time company has been successful in controlling the expenses i.e. manufacturing & other expenses.

It is a clear index of cost control, managerial efficiency & sales promotion.

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5] Operating Profit Ratio:

Formula:

$$\text{Operating profit ratio} = \frac{\text{Operating profit}}{\text{Net sales}} *100$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
NPAT	48165.00	36539.00	24251.00	42004.00
Proprietors fund	385501.00	350880.00	265069.00	445375.00
Return on proprietors fund	12.49	10.41	9.15	9.43

Comments:

Operating profit ratio shows the relationship between operating profit & the sales. The operating profit is equal to gross profit minus all operating expenses or sales less cost of goods sold and operating expenses.

The operating profit ratio of 12.49% indicates that average operating margin of Rs.12 is earned on sale of Rs. 100. This amount of Rs. 12 is available for meeting non operating expenses. In the other words operating profit ratio 12.49 means that 12.49% of net sales remains as operating profit after meeting all operating expenses.

During the last 4 years the operating profit ratio is decreasing. It indicates that the company has not great efficiency in managing all its operations of production, purchase, inventory, selling and distribution and also has not control over the direct and indirect costs. Thus, company has less margin is available to meet non-operating expenses to earn net profit.

6] Stock Turnover Ratio:

Formula:

$$\text{Stock Turnover Ratio} = \frac{\text{COGS}}{\text{Average stock}}$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
COGS	284299.00	265199.00	195625.00	345286.00
Average stock	18114.5	16864.5	13703	17337.5
Stock Turnover Ratio	15.69	15.73	14.28	19.92

Comments:

Stock turnover ratio shows the relationship between the sales & stock it means how stock is being turned over into sales.

The stock turnover ratio is 2021 -2022 was 19.92 times which indicate that the stock is being turned into sales 19.92 times during the year. The inventory cycle makes 19.92 rounds during the year. It helps to work out the stock holding period, it means the stock turnover ratio is 19.92 times then the stock holding period is 3.5 months [12/19.92=0.60 month]. This indicates that it takes 18 days for stock to be sold out after it is produced. For the last 4 years stock turnover ratio is higher than the standard. In the year 2018-2019 to 2021-2022 the stock turnover ratio has improved from 15.69 to 19.92 times, it means with lower inventory the company has achieved greater sales. Thus, the stock of the company is moving fast in the market.

7] Return on Capital Employed:

Formula:

$$\text{Return on capital employed} = \frac{\text{EBIT}}{\text{Capital employed}} *100$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
EBIT	56987.00	51080.00	39069.00	55876.00
Capital employed	405826.00	425088.00	474987.00	472031.00
Return on capital employed	14.04	12.02	8.23	11.84

Comments:
The return on capital employed shows the relationship between profit & investment. Its purpose is to measure the overall profitability from the total funds made available by the owner & lenders.
The return on capital employed 11.84% indicate that net return of Rs. 11.84 is earned on a capital employed of Rs.100. this amount of Rs. 11.84 is available to take care of interest, tax,& appropriation.
The return on capital employed is show-mixed trend, i.e. it decrease in 2019-2020 and 2020-2021, and finally increase in last year. In 2018-2019 It is highest that is 14.04%. This indicates a very high profitability on each rupee of investment & has a great scope to attract large amount of fresh fund.

8] Return on Proprietors Fund Ratio:
Formula:

$$\text{Return on Equity shareholders fund} = \frac{\text{Divisible profit}}{\text{Equity share holder fund}} * 100$$

YEAR	2018-2019	2019-2020	2020-2021	2021 -2022
NPAT	44783.00	41667.00	43593.00	47972.00
Proprietors fund	405322.00	424584.00	474483.00	471527.00
Return on proprietors fund	11.05	9.81	9.19	10.17

Comments:
Return on Equity share holders shows the relationship between profits & investments by Equity shareholders in the company. In the year 2021 -2022 the return on proprietors fund is 10.17% it means the net return of Rs. 10.17 approximately is earned on the each Rs. 100 of funds contributed by the owners.
The return on capital employed is show-mixed trend, i.e. it decrease in 2019-2020 and 2020-2021, and finally increase in last year. I n 2018-2019 It is highest that is 11.05%. It shows that the company has less returns available to take care of high dividends, large transfers to reserve etc. & has a great scope to attract large amount of fresh fund from owners.

7. FINDINGS :

- The current ratio has shown fluctuating trend as 0.76, 0.54, 1.04 and 1.11 during 2019, 2020, 2021 and 2022. The ideal ratio of current ratio is 2:1 and it is not fullfilled during this four years.
- The quick ratio is first decrease and then increase trend throughout the period 2019– 22 resulting as 0.54, 0.41, 0.86, 0.88.The Company believes in high profitability and low liquidity position.
- The gross profit ratio is in fluctuation manner. It decreased in the current year compared with the previous year from 26.20% to 22.47%.
- The net profit ratio is also decreased in the current year compared with the previous year from 16.52% to 10.82% and it is very high decreasing for that year.
- The operating profit ratio is increased in the current year compared with the previous year from 9.15% to 9.43%.
- The return on capital employed is decreased in the year 2020 and 2021 while it increased in the last year.
- Return on proprietorship fund is maximum in the year 2018-19 and minimum in the year 2020-21.
- 8.The stock turnover ratio available to the company was maximum in the year 2022 shows the high time position of the firm and it was minimum in the previous year shows the low time position of the firm.

8. SUGGESTION & RECOMMENDATION :

- Liquidity refers to the ability of the concern to meet its current obligations as and when these become due. The company should improve its liquidity position.
- The company should make the balance between liquidity and profitability position of the company.
- The profit ratio is decreased in current year so the company should pay attention to this because profit making is the prime objective o every business.
- The return on capital employed ratio and return on equity shareholders fund is increased in current year so the company should pay attention to this because profit making is the prime objective o every business.

9. CONCLUSION :

The company's overall position is at not good position. The company achieves sufficient profit in past four years. The company maintains low liquidity to achieve the high profitability. The company distributes dividends every year to its share holders. The profit of the company decreased in the last year due to maintaining the comparatively high liquidity. The stock turnover of the company is maximum in the last year shows the maximum liquidity.

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