

A STUDY ON FINANCIAL ANALYSIS OF RELIANCE INDUSTRIES LTD

¹Mohammad Azaad, II MBA Student, Malla Reddy Engineering College(Autonomous),
Hyderabad.E-mail Id: mohammadazaad505@gmail.com

²Dr. N. Ramanjaneyulu, Professor and Head, Department of MBA, Malla Reddy Engineering
College(Autonomous),Hyderabad, E-Mail Id: ramanjimba09@gmail.com

To Cite this Article

Mohammad Azaad, Dr. N. Ramanjaneyulu, "A Study On Financial Analysis Of Reliance Industries Ltd", Journal of Science Engineering Technology and Management Science, Vol. 02, Issue 07, July 2025,pp: 433-444, DOI: <http://doi.org/10.63590/jsetms.2025.v02.i07.pp433-444>

Submitted: 09-05-2025

Accepted: 16-06-2025

Published: 25-06-2025

ABSTRACT

This study aims to conduct a comprehensive financial analysis of **Reliance Industries Ltd. (RIL)**, one of India's largest conglomerates, operating across sectors such as petrochemicals, oil and gas, telecommunications, and retail. The analysis utilizes key financial tools such as ratio analysis, trend analysis, and DuPont analysis to evaluate RIL's performance in terms of profitability, liquidity, solvency, and operational efficiency. The research explores the company's growth trajectory, with a particular focus on its diversification strategy and its impact on financial stability and shareholder value. The study also investigates the implications of external factors such as global oil price fluctuations, government policies, and the company's strategic investments in new sectors like digital services and green energy. The findings provide valuable insights into the company's financial health and its ability to sustain growth amidst evolving market conditions.

Keywords: Financial Analysis, Reliance Industries Ltd, Ratio Analysis, Profitability and Liquidity, Diversification Strategy.

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INTRODUCTION

Reliance Industries Limited (RIL) is one of India's largest conglomerates with diversified interests spanning energy, petrochemicals, retail, telecommunications, and digital services. As a key player in the Indian economy, the financial performance of RIL significantly influences market sentiment and investor behavior. Financial analysis serves as a critical tool for evaluating a company's stability, profitability, and overall performance. By analyzing RIL's financial statements—balance sheet, income statement, and cash flow—investors and stakeholders gain insight into the firm's operational efficiency and financial health. With increasing investor interest and market volatility, a comprehensive financial analysis of RIL provides crucial information for informed decision-making. The study not only offers a company-specific evaluation but also contributes to a broader understanding of financial assessment in a rapidly evolving business environment. Given RIL's dynamic investment and expansion strategies, timely financial analysis is essential to assess the impact of such decisions on long-term performance and shareholder value.

LITERATURE REVIEW

1. **Sharma, R. (2020)** Analyzed the financial performance of Reliance Industries using profitability, liquidity, and solvency ratios. The study found consistent revenue growth and stable debt-equity ratios, highlighting effective financial management.

2. **Kumar, A. & Mehta, S. (2020)** Focused on trend analysis of Reliance's financial statements over five years. The study noted significant capital investment and diversification, particularly in telecom and retail.
3. **Patel, N. (2020)** Investigated Reliance's vertical integration strategy and its impact on financial performance. The study linked operational efficiency to improved gross profit margins.
4. **Rao, M. & Srinivas, V. (2021)** Compared Reliance Industries with competitors like ONGC and Tata Group using ratio analysis. Reliance outperformed in net profit margin and ROCE, indicating superior cost control.
5. **Das, T. (2021)** Used DuPont analysis to break down Reliance's return on equity. The findings highlighted asset turnover as a key driver of shareholder value.
6. **Sinha, R. (2021)** Studied the impact of digital services on Reliance's overall financials. Jio's revenue contribution significantly boosted the company's profitability and market valuation.
7. **Ahmed, Z. (2021)** Performed a risk-return analysis of Reliance's investments. Found that diversified business models reduced volatility in earnings and enhanced investor confidence.
8. **Kapoor, J. & Raj, D. (2022)** Analyzed liquidity ratios post-COVID-19. Reliance maintained strong liquidity due to strategic divestments and fundraising via rights issues.
9. **Mishra, A. (2022)** Explored the role of foreign investments in strengthening Reliance's financial base. The study reported positive impacts on debt reduction and capital expansion.
10. **Gupta, P. & Singh, H. (2022)** Assessed Reliance's cost structures and operating leverage. Found optimized cost management and scale economies enhanced operating profits.

NEED FOR THE STUDY

This study is essential for evaluating the financial sustainability and future prospects of Reliance Industries Ltd., especially in light of its aggressive diversification and capital expenditure. Investors, analysts, and academicians require accurate and updated assessments to make informed financial and strategic decisions. Moreover, as a market leader, RIL's financial performance has a broader economic impact. Conducting a detailed financial analysis aids in understanding how well the company manages its resources and adapts to market dynamics. The study also helps bridge the knowledge gap between theoretical financial principles and their practical application in real-world business scenarios.

SCOPE OF THE STUDY

The study focuses on the financial analysis of Reliance Industries Limited over the past five financial years. It covers an in-depth examination of key financial ratios including liquidity, profitability, solvency, and efficiency. The research is based on secondary data obtained from annual reports, financial statements, and stock market databases. The scope is limited to the company's financial performance and does not include qualitative factors such as management efficiency or corporate governance. Geographically, the focus remains on the Indian market, although global operations may be referenced where relevant to financial outcomes. The study aims to draw conclusions applicable to investors, analysts, and policy-makers.

OBJECTIVES OF THE STUDY

1. To evaluate the financial performance of Reliance Industries Ltd. using ratio analysis.
2. To assess the company's profitability, liquidity, and solvency position over five years.
3. To identify trends in financial performance and their implications.
4. To provide insights into the investment potential of Reliance Industries Ltd.
5. To offer recommendations based on the financial findings for stakeholders.

METHODOLOGY OF THE STUDY

Reliance Industries Ltd. operates across multiple sectors, making its financial structure complex and multifaceted. With ongoing expansions and capital investments, stakeholders face challenges in interpreting whether the company's financial growth reflects actual operational success or is influenced by external or one-time factors. This study seeks to systematically analyze financial performance over time to uncover meaningful trends.

RATIO ANALYSIS

- Liquidity ratios

- Current Ratio
- $\text{Current Ratio} = \text{Current Asset} / \text{Current Liability}$
- Quick Ratio
- Quick Ratio is the ratio of liquid assets to current liability. It is also called acid test ratio. Ratio of 1:1 is considered ideal.
- $\text{Quick Ratio} = \text{Quick asset} / \text{Current liability}$
- Absolute Liquidity Ratio
- $\text{Absolute Liquidity Ratio} = \text{Cash} + \text{Marketable Securities} / \text{Current Liability}$
- Solvency Ratios
- Debt Equity Ratio
- $\text{Debt Equity Ratio} = \text{Debt} / \text{Equity}$
- Proprietary Ratio
- $\text{Proprietary Ratio} = \text{Shareholders Fund} / \text{Total Asset}$
- Leverage Ratios
- $\text{Leverage Ratio} = \text{Total Asset} / \text{Total Liability}$
- COMPARATIVE STATEMENT

There are two types of comparative statements which are as follows

1. Comparative Balance Sheet
2. Comparative Profit & Loss A/c

LIMITATIONS OF THE STUDY

1. The time available for the study is limited so in-depth study could not be undertaken.
2. The information provided in the financial statement may not be precise.
3. The cash flow statement may not prescribe in the website.
4. The result of the study cannot be generalized.

DATA ANALYSIS AND INTERPRETATION

The data collected are analyzed using several variables and the results are given below:

1. Current Ratio

Current Asset / Current Liability

Table 3.1

Table showing Current ratio

Year	Current Asset (₹ in Cr's)	Current Liabilities (₹ in Cr's)	Current Ratio
2020-21	26393.62	9250.15	2.85
2021-22	31747.27	10011.99	3.17
2022-23	39505.35	9559.77	4.13
2023-24	34991.99	10689.68	3.27
2024-25	34232.45	12163.71	2.81

(Source: compiled from annual report)

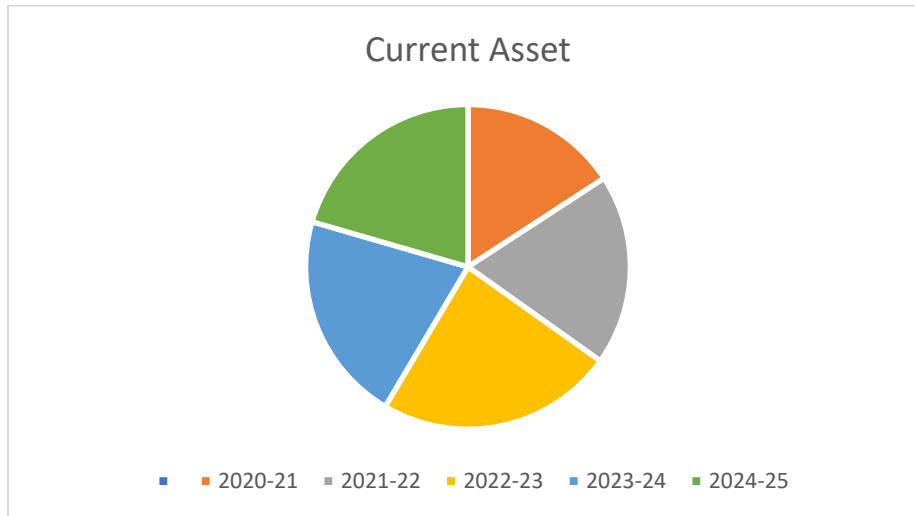


Figure 4.1- Figure showing current ratio

INTERPRETATION

The ideal current ratio is 2:1. From the above table it is clear that financial year's except 2018-19 has attained the ideal current ratio. This indicates that company is able to pay off its short-term obligations in the financial years 2019 to 2023.

2. Quick Ratio

Quick Asset /Current Liability

Table 4.2
Table showing quick Ratio

Year	Quick Asset (₹ in Cr's)	Current Liability (₹ in Cr's)	Quick Ratio
2020-21	18809.09	9250.15	2.03
2021-22	23803.30	10011.99	2.37
2022-23	30539.82	9559.77	3.19
2023-24	24484.77	10689.68	2.29
2024-25	23258.86	12163.71	1.91

(Source: compiled from annual report)

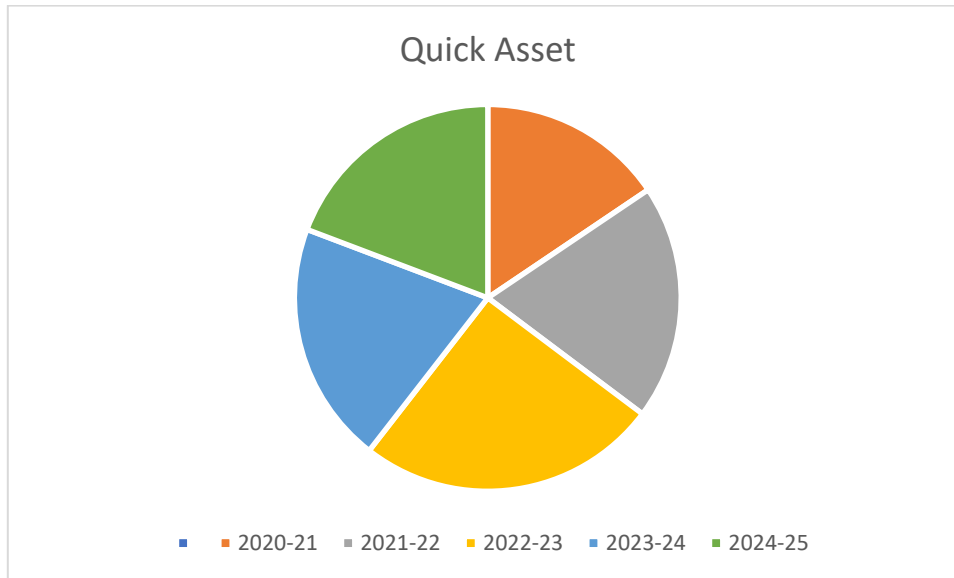


Figure 4.2 – Figure showing quick ratio

INTERPRETATION

The ideal quick ratio is 1:1. From the above table it is clear that the company has attained the ideal quick ratio. The ratio is increasing year by year. This indicates that the short-term solvency position of the company is good.

3. Debt Equity Ratio

Total Debt / Equity.

Table 4.3

Table showing Debt equity ratio

Year	Total Debt (₹ in Cr's)	Equity (₹ in Cr's)	Debt-equity Ratio
2020-21	11444.28	52844.58	0.21
2021-22	12314.07	59484.34	0.20
2022-23	11716.31	65650.73	0.17
2023-24	13125.15	60694.15	0.21
2024-25	14437.68	62821.87	0.22

(Source: compiled from annual report)

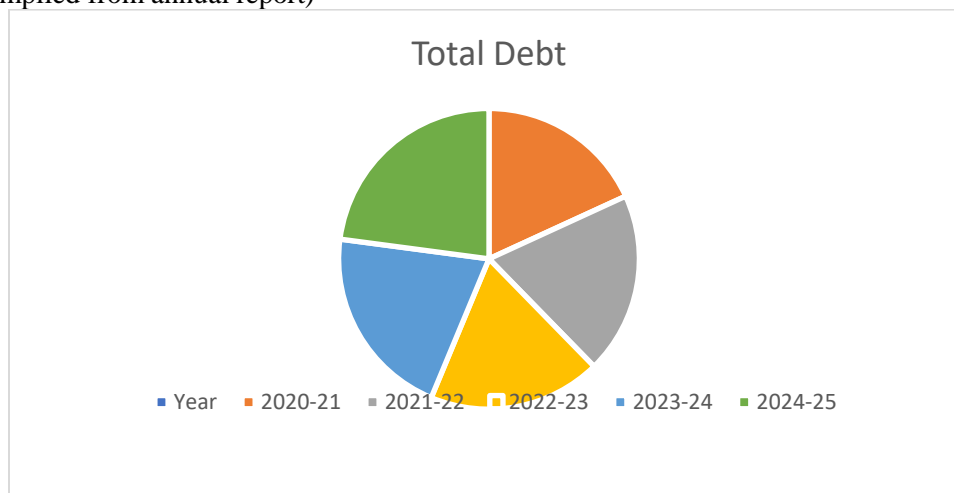


Figure 4.3 – Figure showing Debt equity ratio

INTERPRETATION

The Standard debt equity ratio is 1:1. From the above table it is clear that the company has not attained the ideal debt equity ratio. It shows that the company tends to use more of the owner's fund than the borrower's fund.

4. Proprietary Ratio

Proprietor's fund or Shareholder's fund/ Total Asset

Table 4.4

Table showing Proprietary Ratio

Year	Proprietor's Fund (₹ in Cr's)	Total Asset (₹ in Cr's)	Proprietary Ratio
2020-21	52844.58	64288.86	0.82
2021-22	59484.34	71798.41	0.82
2022-23	65650.73	77367.04	0.84
2023-24	60694.15	73819.30	0.82
2024-25	62821.87	77259.55	0.81

(Source: compiled from annual report)

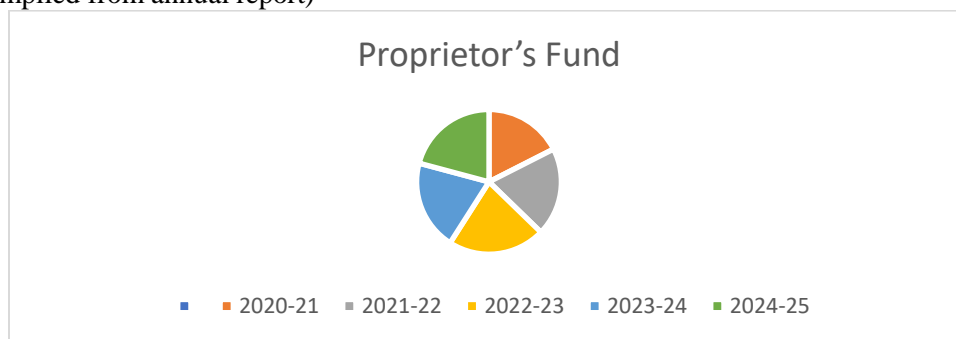


Figure 4.4 – Figure showing Proprietary ratio

INTERPRETATION

The ideal proprietary ratio is 0.5:1. From the above table it is clear that the company has attained the ideal proprietary ratio. The company maintains a constant proprietary ratio over the last 5 years.

5. Leverage Ratio

Total Asset / Total Debt

Table 4.5

Table showing Leverage Ratio

Year	Total Asset (₹ in Cr's)	Total Debt (₹ in Cr's)	Leverage Ratio
2020-21	64288.86	11444.28	5.61
2021-22	71798.41	12314.07	5.83
2022-23	77367.04	11716.31	6.60
2023-24	73819.30	13125.15	5.62
2024-25	77259.55	14437.68	5.35

(Source: compiled from annual report)

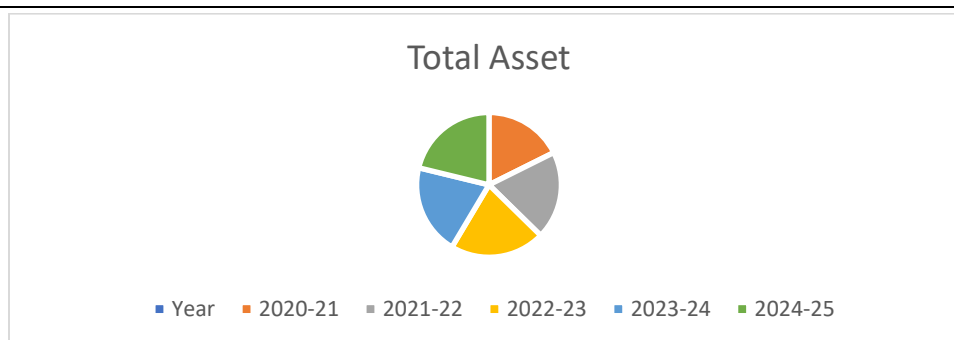


Figure 4.5 – Figure showing leverage ratio

INTERPRETATION

The ideal leverage ratio is 1:1. The above table shows that the company has attained the ideal leverage ratio. This means there is higher degree of solvency.

6. Net Profit Ratio

Net Profit /Net Sales x 100

Table 4.6

Table showing Net Profit Ratio

Year	Net Profit(Cr)	Net Sales(Cr)	Net Profit Ratio
2020-21	11492.68	47688.55	24.09
2021-22	12835.90	49862.11	25.74
2022-23	15592.78	51393.47	30.34
2023-24	13382.88	53155.12	25.18
2024-25	15503.13	65204.96	23.78

(Source: compiled from annual report)

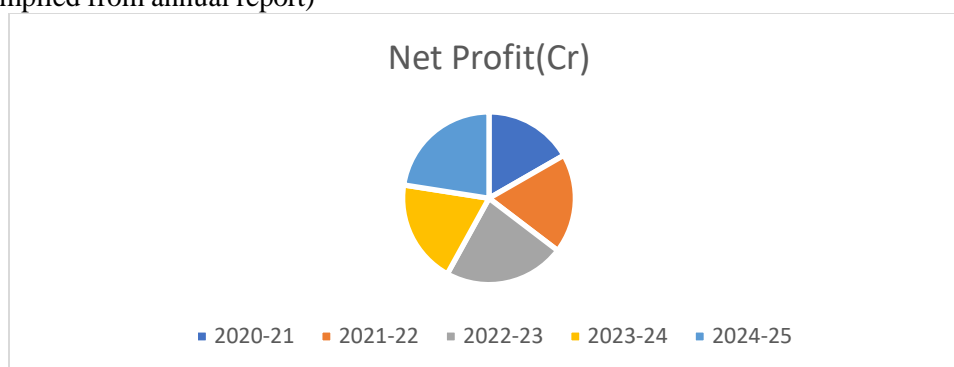


Figure 4.6 – Figure showing net profit ratio

INTERPRETATION

The ideal net profit ratio is 5% to 10%. From the above table it is clear that company has attained the ideal net profit ratio and the ratio is increasing year by year.

7. Return on Capital Employed

Earnings before Interest and Taxes/ Capital Employed x 100

Table 4.7

Table showing Return on Capital Employed(ROCE)

Year	EBIT (₹ in Cr's)	Capital Employed (₹ in Cr's)	Return on Capital
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			Employed
2020-21	17409.11	56104.12	31.03
2021-22	19149.82	61694.00	31.04
2022-23	20034.57	67230.10	29.80
2023-24	17938.17	62963.03	28.49
2024-25	20740.47	65037.53	31.89

(Source: compiled from annual report)

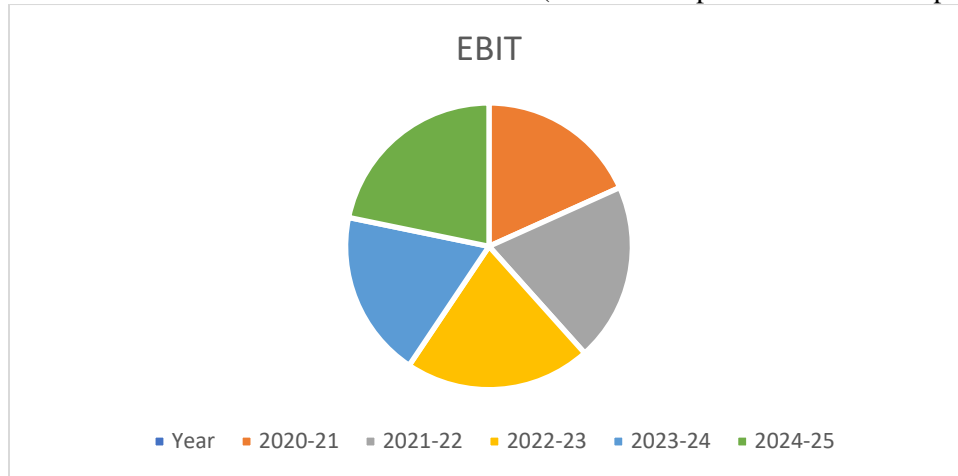


Figure 4.7 – Figure showing Return on Capital Employed

INTERPRETATION

The ideal ROCE is 10%. The above data shows that the ROCE is more than the ideal ratio and it is increasing year by year. This indicates that the return on capital employed shows a positive trend.

8. Return on Shareholders fund or Return on Equity

Net Profit / Shareholders fund x 100

Table 4.8

Table showing return on Shareholder's fund

Year	Net Profit (₹ in Cr's)	Shareholders Fund (₹ in Cr's)	Return on Equity
2020-21	11492.68	52844.58	21.74
2021-22	12835.90	59484.34	21.57
2022-23	15592.78	65650.73	23.75
2023-24	13382.88	60694.15	22.04
2024-25	15503.13	62821.87	24.67

(Source: compiled from annual report)

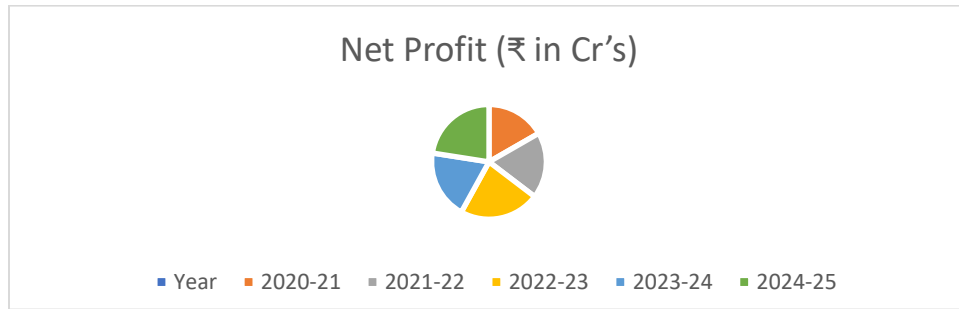


Figure 4.8 – Figure showing return on shareholder's fund

INTERPRETATION

The ideal Return on shareholder's fund is 15%. The above table shows that Return on shareholders fund is more than the standard for all the 5 years. This means that RELIANCE INDUSTRIES LTD provides a fair amount as return to their shareholder's.

9. Total Asset Turnover Ratio

Net sales / Total Assets

Table 4.9

Table showing Total Asset turnover ratio

Year	Net Sales (₹ in Cr's)	Total Asset (₹ in Cr's)	Percentage
2020-21	47688.55	64288.86	0.74
2021-22	49862.11	71798.41	0.69
2022-23	51393.47	77367.04	0.66
2023-24	53155.12	73819.30	0.72
2024-25	65204.96	77259.55	0.84

(Source: compiled from annual report)

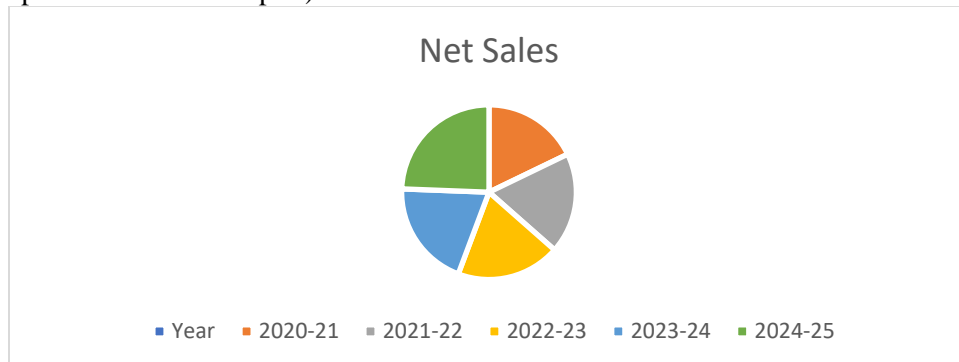


Figure 4.11 – Figure showing Total asset turnover ratio

INTERPRETATION

The above table shows that the Total Asset Turnover Ratio is Fluctuating. The highest turnover ratio is in the year 2024-25 and the lowest turnover ratio in the year 2022-23.

10. Current Asset Turnover Ratio

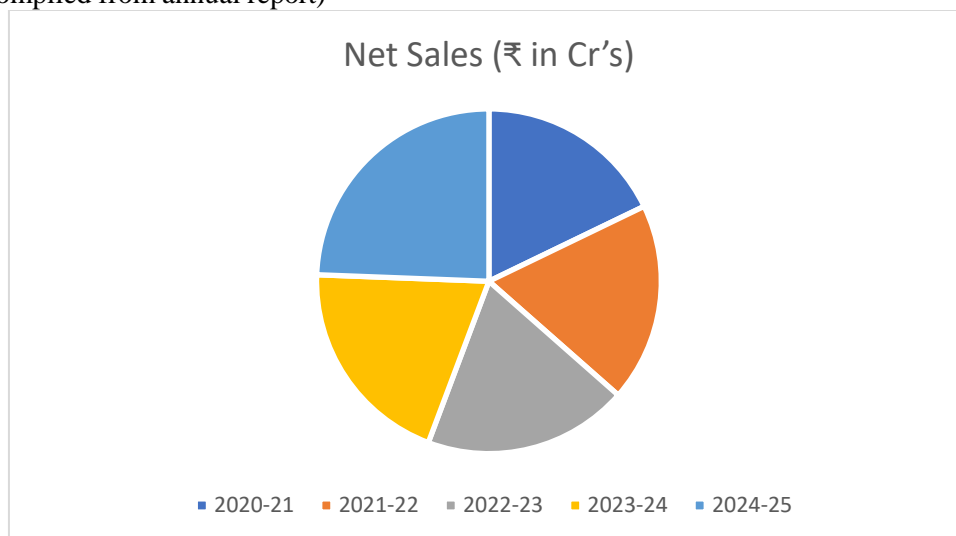
Net Sales/ Current Asset

Table 4.10

Table showing current asset turnover ratio

Year	Net Sales (₹ in Cr's)	Current Asset (₹ in Cr's)	Percentage
2020-21	47688.55	26393.62	1.80
2021-22	49862.11	31747.27	1.57
2022-23	51393.47	39505.35	1.30
2023-24	53155.12	34991.99	1.51
2024-25	65204.96	34232.45	1.90

(Source: compiled from annual report)



4.10 – Figure showing current asset turnover ratio

INTERPRETATION

The above table shows that the current asset turnover ratio is fluctuating year by year. The highest current asset turnover ratio is in the year 2019-20 Figure

Comparative Balance Sheet for the year 2017-18 & 2018-19

Table 4.11

Particulars	2017-18 (₹ in Cr's)	2018-19 (₹ in Cr's)	Absolute Amount	Percentage
Equity & Liability				
Shareholders fund	52844.58	59484.34	6639.76	12.56
Non-current Liability	2194.13	2302.08	107.95	4.91
Current Liability	9250.15	10011.99	761.84	8.23
TOTAL	64288.86	71798.41	7509.55	—
Asset				
Fixed Asset	21829.76	23308.08	1478.32	6.77
Non-current Investment	16065.48	16743.06	677.58	4.21
Current Asset	26393.62	31747.27	5353.65	20.28
TOTAL	64288.86	71798.41	7509.55	—

(Source: compiled from annual report)

In the financial year 2021-22 the Reliance Industries Ltd didn't had any decrease in the Assets

and Liabilities comparing to the previous year. There was a 12.56% increase in Shareholders fund and the Current Asset increased by 20.28%. Overall the Reliance Industries Ltd had increased in the Assets and Liability by 11.68%

FINDINGS

1. The company was able to attain the ideal current ratio for the previous 5 years i.e. from 2017-18 to 2021-25.
2. The company attained the ideal quick asset ratio during the time period in which the study was undertaken and it also shows a positive trend.
3. RELIANCE INDUSTRIES LTD limited has a fair liquidity position.
4. The company has not attained the ideal debt equity ratio which means that the company tends to use more of the owners fund than the borrowers fund.
5. The proprietary ratio indicates that the RELIANCE INDUSTRIES LTD Limited has a strong financial position and the company provides greater security to its creditors.
6. The solvency position of RELIANCE INDUSTRIES LTD Limited is considerably high.
7. The net profit ratio of the RELIANCE INDUSTRIES LTD Limited is more than the ideal ratio which means that the company was able to obtain a fair amount as profit after the deduction of tax and other expenses.
8. The Return on Investment is more than the ideal ratio which means that company is more efficient and profitable.
9. More investors will be attracted to RELIANCE INDUSTRIES LTD Limited as the Return on Investment of the Company is high.
10. The return on shareholder's fund is more than the ideal ratio which indicates that RELIANCE INDUSTRIES LTD limited provide fair amount of return to their shareholders from the company's profits.
11. The Total asset turnover ratio of Reliance Industries Ltd is fluctuating trend over the period which means that the company decrease the value of financial resources
12. The current asset turnover ratio is fluctuating year by year. Increase in Current asset turnover ratio decrease the value of financial resources.
13. The comparative statements of last 2 years showed that the liabilities such as current and non-current liabilities showed a decrease and in the assets part the Tangible asset showed a decrease when compared to previous year and all the other items showed an increase.

SUGGESTIONS

1. The company should use more borrowers fund than the owners fund to attain the ideal debt equity ratio.
2. The company should try to reduce the current asset turnover ratio for getting increase in the value of the financial resources.
3. The return on investment of RELIANCE INDUSTRIES LTD limited is more than the ideal ratio but it is showing a decreasing trend therefore the management should think for more strategies to increase the return on investment so that they can attract more investors to invest in their firm.
4. The company should try to increase the value of goodwill that the company possess.
5. The liability of RELIANCE INDUSTRIES LTD limited is showing an increase in the years in which the study was undertaken which is not good for the company so the company should try to reduce their liabilities in the coming years.

CONCLUSION

The project entitled "study on the financial performance of RELIANCE INDUSTRIES LTD limited" helps to get a critical analysis of the overall financial health of a firm over a given period of time and comparison between financial health of similar firms. The study reveals that the financial performance of RELIANCE INDUSTRIES LTD limited is satisfactory and the company has a fair Liquidity, solvency and profitability position. The financial statement is analyzed and interpreted with

the help of Balance sheet and Profit and loss account of the last 5 years. The financial performance of RELIANCE INDUSTRIES LTD limited proves that the company has a bright future.

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