

# A study on financial statements analysis of reliance industries

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**Abstract**—This study analyzes the financial performance of Reliance Industries Limited (RIL) from 2021 to 2025 using key financial metrics and theoretical models such as Fundamental Analysis, DuPont Analysis, and the Modigliani–Miller Theorem. The research evaluates RIL’s profitability, liquidity, and solvency ratios to assess its operational efficiency and strategic financial positioning. Findings indicate a consistent improvement in profitability metrics, with ROCE peaking at 12.98% in 2024 and a stable solvency structure reflected in a Debt-to-Equity ratio below 0.65. However, persistent liquidity constraints, indicated by a current ratio below 1, suggest short-term financial pressure. The study concludes that RIL’s diversified investments and debt optimization strategies contribute to strong long-term stability, though enhanced liquidity management remains crucial for sustaining financial agility.

**Index Terms**—Reliance Industries Limited, Financial Performance, Ratio Analysis, Profitability, Liquidity

## I. INTRODUCTION

This study examines RIL through multiple theoretical lenses to understand its financial performance, strategic decisions, and competitive positioning.

In financial analysis, the Fundamental Analysis approach (Graham & Dodd) helps evaluate RIL's intrinsic value using key metrics like profitability (ROCE, ROE), liquidity, and solvency. The DuPont Analysis breaks down ROE to assess how operational efficiency, margins, and leverage contribute to RIL's returns. The Modigliani-Miller Theorem explains RIL's capital structure choices, particularly its shift toward zero net debt.

## II. LITERATURE REVIEW

1. Zhang (2021) examines the research on financial statement analysis and highlights its significance in

evaluating a company's financial health and performance. The study highlights the significance of incorporating financial statement analysis with other data sources to improve decision-making

2. Nguyen et al. (2023) highlight significant factors impacting the quality of financial statements from the perspective of an audit. The study found that state ownership, profitability, and profit after taxes on total assets all significantly affect the quality of financial reports. These results show how crucial it is to have strong auditing procedures to guarantee the accuracy of financial data

3. Kotsiantis et al. (2022) claim that there has been a recent surge in interest in identifying financial statement fraud. He provided a framework for analyzing the research on financial statement fraud using machine learning. According to the study, machine learning methods can improve the identification and avoidance of false financial reporting, resulting in financial statements that are more reliable.

4. Rahman and Wang (2022) examined the role that financial reporting plays in the sustainability of businesses in an exploratory study. The findings demonstrate that maintaining and growing corporate operations, which in turn supports long-term firm sustainability, depend on clear and accurate financial accounts.

5. Hooks, Jill (2007) The study found that it examined the financial results of three companies over a 15-year period. The objective is to determine the impact of corporateization, commercialization and ownership forms on the registered financial performance of the three companies, Way, Sun. (2010) found that this paper describes several theories of performance evaluation systems and analyzes the merits and drawbacks of these theories. This paper continues the

system of performance evaluation using fuzzy mathematics using methods.

6. Yunus, N.M & Malik, S.A. (2012), financial models are used to forecast a company's success. The matrix is used for the theoretical analysis in the model creation process.

7. Wei, Sun (2010) discovered that this paper examines the advantages and disadvantages of a few theories regarding the system of performance evaluation. The 4444 system of performance evaluation using fuzzy mathematics is presented in this study. Using an example, this study confirms that the performance evaluation system is accurate.

8. Tariq, Khalid, and Zafar S.M. (2012) The study investigated how ratios are computed from financial statements that are generated in accordance with the management's preferred rules regarding stock valuation and depreciation. The ratio, which is merely a comparison of the numerator and the denominator, is unable to provide a comprehensive and genuine picture of the firm. Results are falsified, and promoters may have overlooked other elements that impact the firm's performance.

9. Rungi, M., and Stulova, V. (2013), the current study looks into how absorptive capacity affects financial performance when it comes to business acquisitions. A quantitative study was conducted using European ICT businesses that were being acquired in 2008. The findings show that financial performance is directly impacted by absorptive capacity.

10. Hajek, P., & Olej, V. (2014) This work develops a methodology to extract 111 ideas containing qualitative information from business annual reports, It is simple to compare the notions with future financial performance thanks to the technique. The findings imply that the concepts stressed in annual reports that represent future financial success vary.

11. Dr. R. Parma and colleagues (2019) examined the financial performance of selected Indian food products from 1991-1992 to 2015-2016 in their paper "Financial Performance of Selected Indian Food Products Industry Drug Posting-Reform Period." They saw that the operational leverage ratio had the highest growth rate at 1.39%, and the turnover ratio had the lowest growth rate at 12%, according to financial analysis. The ability of that industry to pay off its debt was enough.

12. Fajar (2021) aimed to examine changes in financial reporting and assess the profitability growth of PT

Indofood Sukses Makmur Tbk using horizontal analysis and profitability ratios. The study relied on secondary data sources for its analysis. Findings indicated that the company's operating income ratio exceeded its net profit margin, suggesting that interest and tax expenses require closer examination. Between 2017 and 2019, a decline in the operating ratio—driven by reduced operating costs relative to sales—led to an improvement in the operating income ratio, reflecting stronger overall performance. Additionally, analysis of the income statement showed enhanced cost efficiency, which not only boosted sales but also increased gross profit, owing to a reduction in the cost of goods sold.

13. Ruhaya Atan (2010) conducted a study to assess the financial performance of local authorities (LAs) in Malaysia. The evaluation was based on three key dimensions: fiscal-year balance, short-term liquidity, and long-term solvency. These indicators were used to analyze the financial health of city councils, municipal councils, and district councils. The study focused on 12 local authorities from one of Malaysia's developed states, covering a seven-year period from 2000 to 2006. The findings revealed weak performance across all three financial categories, with most metrics showing negative trends. Among the groups, city councils emerged as the strongest performers. However, the overall poor results suggest significant inefficiencies or financial leakages within the local government system. The study's outcomes offer valuable insights that can guide council members, senior officials, and other stakeholders—including federal and state agencies—in evaluating and enhancing the financial performance and long-term sustainability of local governments.

14. Singh (2016) emphasized that financial statements serve as the foundation of any business, providing critical insights into its condition, performance, and ability to sustain operations over time. These documents are essential for stakeholders seeking to evaluate both past outcomes and future potential. The study explores financial statement analysis from both theoretical and practical perspectives, aiming to enhance understanding of its scope and relevance. The author sheds light on various strategies, tools, and techniques used to interpret financial data—helping assess a company's financial standing, profitability, future earnings potential, and capacity to meet obligations such as interest payments.

15. Sarangi Pradeepta K et al. (2014) conducted a study aimed at forecasting future trends in the automobile industry. The research involved six separate experiments using 12 years of historical data to project outcomes for the following three years. For each experiment, data was visualized through spreadsheets, where linear trend lines were applied and extended to estimate future values.

16. Huda Salhe Metten and Manish Roy Tirkey (2014) analyzed the financial performance of Hindustan Petroleum Corporation Ltd. using secondary data. Their findings revealed a strong and improving gross profit ratio, reflecting the company's efficiency in managing production costs. Notably, the net profit for the fiscal year 2010–11 was eight times higher than the previous year, indicating a significant reduction in operating expenses and a substantial increase in the share of net sales benefiting shareholders.

17. Rao (1993), in his research titled "*Financial Appraisal of the Indian Automotive Tyre Industry*," explored the sector's financial strengths and weaknesses between 1981 and 1988. Using both inter-company and inter-sector comparisons, he evaluated financial performance across key players. The study highlighted that, in several tyre companies, fixed assets were underutilized, although inventory management appeared efficient. Rao concluded that the industry's profit performance was inconsistent and lacking in effectiveness. He also provided several recommendations to help enhance financial outcomes within the sector.

18. Pai, Vadivel, and Kamala (2019) explored the financial performance of diversified companies. The primary objective of their study was to examine the relationship between business diversification and financial outcomes. They selected seven large firms operating across various industries, each with a mix of related and unrelated product lines. Using a set of financial performance indicators and ratios, the researchers analyzed and compared the results across these firms. The findings demonstrated statistically significant differences in performance between the companies, ultimately concluding that diversified firms generally showed strong financial performance.

19. Vijayakumar A. (2022) conducted a study titled "*Assessment of Corporate Liquidity – A Discriminant Analysis Approach*." The research identified key variables influencing profitability in the sugar industry, such as sales growth rate, leverage, current

ratio, operating expenses relative to sales, and vertical integration. The study focused on 28 sugar factories from both cooperative and private sectors, assessing their short-term liquidity positions. Discriminant analysis was employed to differentiate between high-risk and low-risk companies based on liquidity and current ratios. By calculating discriminant 'Z' scores, the firms were ranked in terms of their liquidity, offering a clear picture of their financial health.

20. Sur (2021), in his paper titled "*Liquidity Management: An Overview of Four Companies in the Indian Power Sector*," analyzed the liquidity management practices of selected electricity generation and distribution firms. Using data from the financial years 1987–1988 to 1996–1997, he employed comparative accounting analysis to assess their liquidity positions. The study emphasized that effective liquidity management should not only maintain operational stability but also contribute positively to the overall financial growth of the companies.

#### Statement of problem

This study aims to fill these critical knowledge gaps through rigorous financial examination and strategic scenario planning, offering valuable guidance for stakeholders navigating RIL's complex business ecosystem.

### III. OBJECTIVE OF THE STUDY

1. To analyze Reliance Industries' financial health by evaluating key profitability, liquidity, and solvency ratios over the past 5 years (2021-2025).
2. To identify strengths and risks in RIL's financial structure, including debt management, cash flow stability, and investment efficiency

#### 3.5 Research Methodology

##### Data Collection Method

##### Secondary Data

Data has been collected through RIL's annual reports, screener.in, capitaline and journals. This study employs quantitative financial analysis using key financial ratios to evaluate Reliance Industries' performance (2021-2025).

### IV. DATA ANALYSIS

#### 4.1 Ratio Analysis:

4.1.1 Profitability Ratios:

4.1.2 ROCE Calculation:

Return on Capital Employed Formula:  $EBIT / \text{Capital Employed}$

Year	EBIT (₹ Cr)	Capital Employed (₹ Cr)	ROCE (%)
2021	80,790	9,78,134	8.26%
2022	1,08,581	10,98,843	9.88%
2023	1,42,318	11,67,536	12.19%
2024	1,62,498	12,52,469	12.98%
2025	1,65,444	13,12,775	12.61%

Year	Net Profit (₹ Cr)	Shareholders' Equity (₹ Cr)	ROE (%)
2021	49,128	700,172	7.02%
2022	60,705	779,485	7.79%
2023	66,702	715,872	9.32%
2024	69,621	793,481	8.77%
2025	69,648	843,200	8.26%

4.1.3 ROE Calculation

4.2 Liquidity Ratio:

4.2.1 Current Ratio:

Current Ratio Formula:  $\text{Current Assets} / \text{Current Liabilities}$

Year	Current Assets (₹ Cr)	Current Liabilities (₹ Cr)	Current Ratio
2021	118,083	340,931	0.35
2022	167,596	399,979	0.42
2023	237,120	438,346	0.54
2024	281,623	502,576	0.56
2025	294,685	737,346	0.40

4.3 Solvency Ratio:

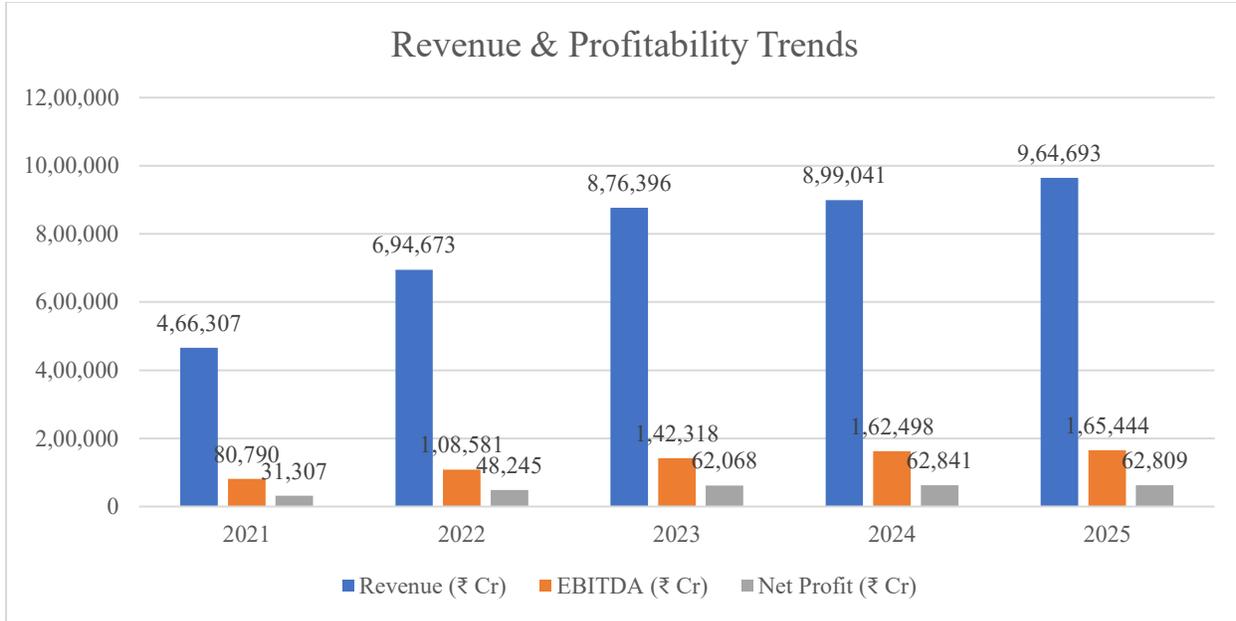
4.3.1 Debt-to-Equity Ratio

Formula:  $\text{Total Debt} / \text{Total Shareholders' Equity}$

Year	Total Debt (₹ Cr)	Equity (₹ Cr)	Debt/Equity Ratio
2021	2,78,962	7,00,172	0.4
2022	3,19,158	7,79,485	0.41
2023	4,51,664	7,15,872	0.63
2024	4,58,991	7,93,481	0.58
2025	3,69,575	8,43,200	0.44

4.2 Trends Analysis

Revenue & Profitability Trends:



**Summary of Findings**

The financial statement analysis of Reliance Industries Limited (RIL) over the period 2021–2025 reveals key insights into its operational performance, liquidity position, and solvency health:

- Profitability:
  - RIL’s Return on Capital Employed (ROCE) improved from 8.26% in 2021 to a peak of 12.98% in 2024, suggesting better capital efficiency post-pandemic.
  - Return on Equity (ROE) peaked at 9.32% in 2023 but slightly declined afterward due to a surge in equity base, indicating slower profit growth relative to capital infusion.
  - EBITDA margins remained stable within the 16–18% range, reflecting resilience across volatile sectors like telecom and petrochemicals.
- Liquidity:
  - The Current Ratio consistently remained below 1, signaling tight liquidity and a heavy reliance on short-term liabilities.
  - The Quick Ratio never crossed 0.3, which highlights a serious concern regarding immediate solvency without liquidating inventory.
- Solvency:
  - The Debt-to-Equity Ratio was maintained under 0.65, reflecting a conservative capital structure compared to peers.

- The Interest Coverage Ratio remained comfortably high, showing RIL's strong ability to service debt.
- Comparative Analysis:
  - RIL lagged behind Tata Group in profitability and liquidity indicators, but outperformed Adani in terms of leverage and interest coverage.
  - RIL’s asset turnover was moderate, influenced by the capital-heavy nature of its infrastructure and new energy investments.

**V. CONCLUSION**

The study concludes that Reliance Industries Limited maintains a strong financial foundation, bolstered by diversification across high-growth sectors like telecommunications, retail, and green energy. Its profitability metrics show consistent improvement, indicating successful post-pandemic recovery and efficient operations. However, the persistently low liquidity ratios expose RIL to short-term financial risks, particularly in the face of rising liabilities. The company's commitment to debt reduction and capital reinvestment has led to a sustainable solvency position, which is crucial for supporting long-term strategic initiatives like the green energy transition and digital expansion. While RIL is strategically positioned to lead in various sectors, it must address

short-term operational pressures to ensure financial agility.

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