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Research Paper on Financial Statement Analysis of Reliance Industries Limited

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Abstract: ***The project assigned to me was to study the financial health of any organization in the country. I decided to choose one of India's largest companies in a sector that has rapidly grown over the last few years and a company where leaders like Mr. Dhirubhai Ambani, or rather, a company that has been made Mr. Dhirubhai Ambani. Through this report, I try and analyze the financial environment in which Reliance Industry Limited is operating. Through a thorough financial analysis, my aim to understand the financial factors is influencing the company and its decision making. Later, I try and evaluate the various ratios to appreciate their impact on company's performance over the last four years.***
The financial statements of last four years are identified, studied and interpreted in light of company's performance. Critical decisions of distributing dividends, Issue of bonus Debentures and other current news are analyzed and their impact on the bottom line of the company is assessed.
Keyword: Ratio Analysis , Fund flow analysis, financial position analyzing

I. INTRODUCTION

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.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.

II. LITERATURE REVIEW

1) Hooks, Jill. (2007) found that this research examines the financial performance of three entities over a fifteen-year period. The aim is to determine the influence of corporatization, commercialization and ownership form on the reported financial performance of three entities. Wei, Sun. (2010) found that this paper discusses some theories of the system of performance evaluation, analyses merit and disadvantage of these theories. this paper brings forward the system ofperformance evaluation with method of fuzzy mathematics.

2) Yunus, N.M., Malik, S.A. (2012) states that the use of financial model is to predict the performance of a company. The theoretical analysis in the development of model is done using the matrix.

3) Hooks, Jill. (2007) found that this research examines the financial performance of three entities over a fifteen year period. The aim is to determine the influence of corporatization, commercialization and ownership form on the reported financial performance of three entities.

4) Wei, Sun. (2010) found that this paper discusses some theories of the system of performance evaluation, analyses merit and disadvantage of these theories. this paper brings forward the system of performance evaluation with method of fuzzy mathematics. This paper validates the correctness of the system of performance evaluation with the example.

5) Hajek, P., & Olej, V. (2014) found that this paper develops a methodology to extract concepts containing qualitative information from corporate annual reports. The methodology makes it possible to easily compare the concepts with future financial performance. The results suggest that annual reports differ in terms of the concepts emphasized reflecting future financial performance.

6) Rungi, M., Stulova, V. (2013) states that the current study investigates the impact of absorptive capacity on financial performance in the context of corporate acquisitions. A quantitative research was carried out based on European ICT companies that were subject to acquisition in 2008. The results demonstrate that absorptive capacity entails a direct effect on financial performance.

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III. OBJECTIVE OF STUDY

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.

IV. LIMITATION OF THE STUDY

A. Estimates

Financial statements contain numerous estimates. Estimates are used in determining the allowance for uncollectible receivables, periodic depreciation, the costs of warranties, and contingent losses.

B. Cost

Traditional financial statements are based on cost. They are not adjusted for price-level changes. Comparisons of unadjusted financial data from different periods may be rendered invalid by significant inflation or deflation. me period**.**

C. Alternative Accounting Methods

Companies vary in the generally accepted accounting principles they use. Such variations may hamper comparability. For example, one company may use the FIFO method of inventory costing: another company in the same industry may use LIFO. If inventory is a significant asset to both companies, it is unlikely that their current ratios are comparable. In addition to differences in inventory costing methods, differences also exist in reporting such items as depreciation, depletion, and amortization.

V. RESEARCH METHODOLOGY

Sources of Data: The secondary data were collected from company's annual reports and their websites.
The data collected on different waspects were analyzed.
Data collection method :-
Secondary

1) *Nature Of Study:* The study is descriptive and analytical in nature
2) *Nature Of Data:* The study is based on secondery and data. Data which are gathered originally for a certain purpose are known as streanght and weakness of company.
3) *Sources Of Data:* The Secondary data is collected by using annual report of company.

VI. RELIANCE IND. 2020-21 ANNUAL REPORT ANALYSIS

RELIANCE IND. Income Statement 2020 --21

No. of Mths Year Ending		12 Mar-20*	12 Mar-21*	% Change
Net Sales	Rs m	5,350,730	3,946,100	-26.3%
Other income	Rs m	132,790	171,420	29.1%
Total Revenues	Rs m	5,483,520	4,117,520	-24.9%
Gross profit	Rs m	844,500	855,640	1.3%
Depreciation	Rs m	222,030	265,720	19.7%
Interest	Rs m	220,270	211,890	-3.8%
Profit before tax	Rs m	534,990	549,450	2.7%
Tax	Rs m	137,260	17,220	-87.5%
Profit after tax	Rs m	397,730	532,230	33.8%

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Gross profit margin	%	15.8	21.7	
Net profit margin	%	7.4	13.5	

A. RELIANCE IND. Income Statement Analysis

1) Operating income during the year fell 26.3% on a year-on-year (YoY) basis
2) The company's operating profit increased by 1.3% YoY during the fiscal. Operating profit margins witnessed a fall and down at 21.7% in FY21 as against 15.8% in FY20.
3) Depreciation charges increased by 19.7% and finance costs decreased by 3.8% YoY, respectively.
4) Other income grew by 29.1% YoY
5) Net profit for the year grew by 33.8% YoY.

RELIANCE IND. Balance Sheet as on March 2021

No. of Mths Year Ending		12 Mar-20*	12 Mar-21*	% Change
Networth	Rs m	4,491,470	6,994,350	55.7
Current Liabilities	Rs m	4,129,160	2,775,680	-32.8
Long-term Debt	Rs m	1,976,310	1,636,830	-17.2
Total Liabilities	Rs m	11,630,150	13,200,650	13.5
Current assets	Rs m	2,582,600	3,730,110	44.4
Fixed Assets	Rs m	9,047,550	9,470,540	4.7
Total Assets	Rs m	11,630,150	13,200,650	13.5

B. RELIANCE IND. Balance Sheet Analysis

1) The company's current liabilities during FY21 down at Rs 2,776 billion as compared to Rs 4,129 billion in FY20, thereby witnessing an decrease of -32.8%.
2) Long-term debt down at Rs 1,637 billion as compared to Rs 1,976 billion during FY20, a fall of 17.2%.
3) Current assets rose 44% and stood at Rs 3,730 billion, while fixed assets rose 5% and stood at Rs 9,471 billion in FY21.
4) Overall, the total assets and liabilities for FY21 stood at Rs 13,201 billion as against Rs 11,630 billion during FY20, thereby witnessing a growth of 14%.

RELIANCE IND. Cash Flow Statement 2020-21

Particulars	No. of months	12	12	% Change
	Year Ending	Mar-20	Mar-21	
Cash Flow from Operating Activities	Rs m	948,770	261,850	-72.4%
Cash Flow from Investing Activities	Rs m	-725,200	-1,416,340	-
Cash Flow from Financing Activities	Rs m	-25,410	1,019,020	-
Net Cash Flow	Rs m	198,390	-135,230	-

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C. RELIANCE IND. Cash Flow Statement Analysis

1) RELIANCE IND.'s cash flow from operating activities (CFO) during FY21 stood at Rs 262 billion on a YoY basis.
2) Cash flow from investing activities (CFI) during FY21 stood at Rs -1,416 billion, an improvement of 95.3% on a YoY basis.
3) Cash flow from financial activities (CFF) during FY21 stood at Rs 1,019 billion, an improvement of 4,110% on a YoY basis.
4) Overall, net cash flows for the company during FY21 stood at Rs -135 billion from the Rs 198 billion net cash flows seen during FY20.

VII. KEY RATIO ANALYSIS

No. of Mths Year Ending		12 Mar-20*	12 Mar-21*
Current ratio	x	0.6	1.3
Debtors' Days	Days	1	2
Interest coverage	x	3.4	3.6
Debt to equity ratio	x	0.4	0.2
Return on assets	%	5.3	5.6
Return on equity	%	8.9	7.6

VIII. SUGGESTION & RECOMMENDATION

1) 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.
2) The company should make the balance between liquidity and solvency position of the company.
3) 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.
4) The cost of goods sold is high in every year so the company should do efforts to control it.
5) The long term financial position of the company is very good but it should pay a little attention to short term solvency of the company.

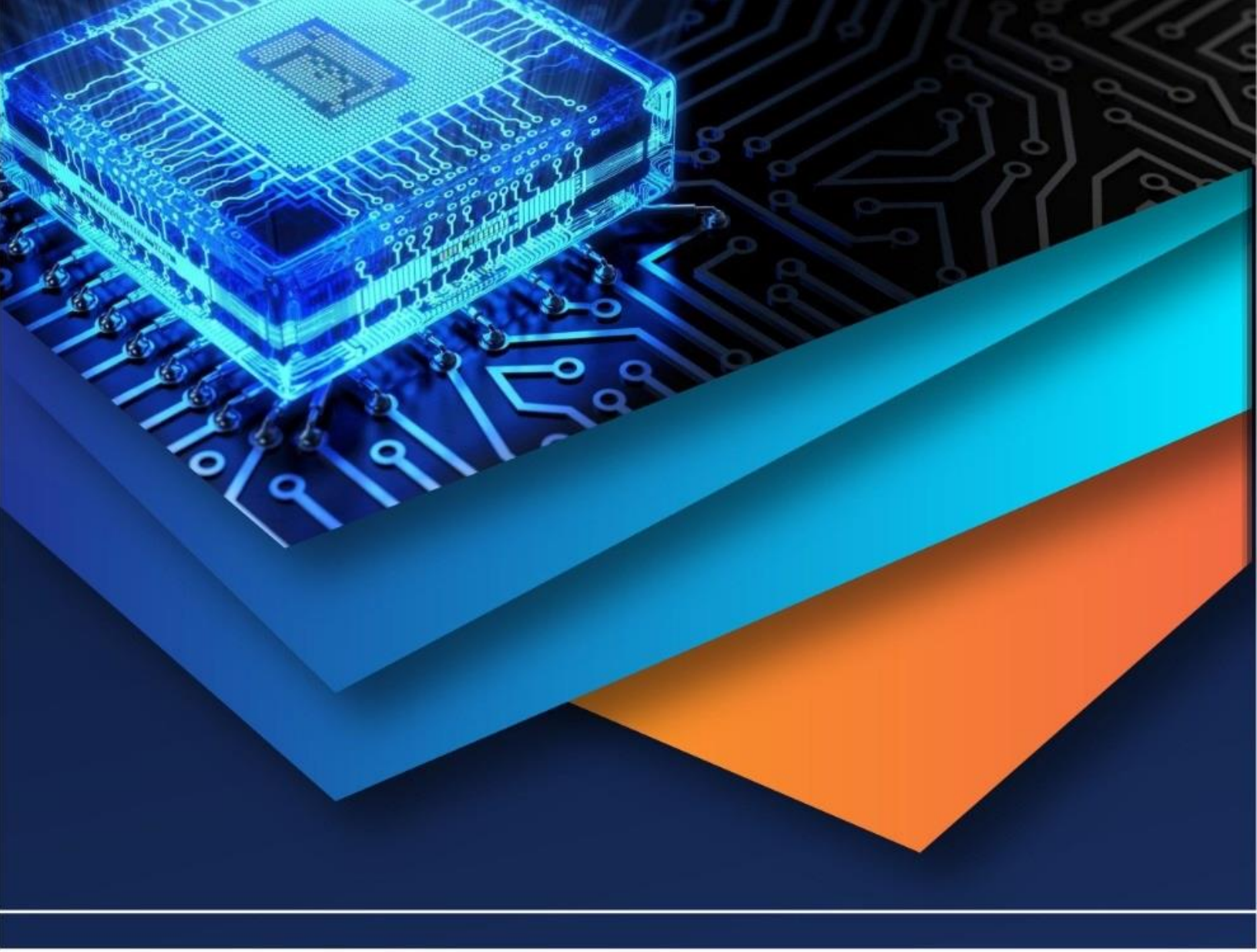
IX. CONCLUSION

The company's overall position is at a very good position. The company achieves sufficient profit in past four years. The long term solvency position of the company is very good. 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 net working capital of the company is maximum in the last year shows the maximum liquidity.

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