



PROFITABILITY ANALYSIS OF RELIANCE INDUSTRIES LTD.

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ABSTRACT

This research paper conducts a comprehensive profitability analysis of Reliance Industries Ltd. over a five-year period (2019-2024). Key financial metrics, including Gross Profit Margin (GPM), Net Profit Margin (NPM), Operating Profit Margin (OPM), Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), and Earnings Per Share (EPS), are examined to evaluate the company's financial performance and efficiency.

The findings reveal robust profitability, with an average GPM of 66.94% and steady growth in EPS, which peaked at Rs. 12.45 in 2023-24. However, fluctuations in NPM, OPM, ROE, and ROCE indicate challenges in maintaining peak efficiency and profitability. Notably, the ROA demonstrated stability, reflecting effective resource management.

The study highlights the importance of consistent cost control, strategic capital utilization, and operational improvements in sustaining profitability and shareholder value. Despite periodic declines in some metrics, Reliance Industries Ltd. showcases strong overall financial performance, underscoring its resilience and market leadership. This analysis provides actionable insights for stakeholders to enhance decision-making and ensures sustained financial growth in a dynamic business environment.

INTRODUCTION

The concept of financial performance analysis is the process of identifying financial strength of the company with the help of its Statement of Profit and Loss Account, and Balance Sheet. Reliance Industries Ltd. (RIL), founded by Dhirubhai Ambani in 1960, is one of India's largest and most diversified companies, with significant operations in sectors such as petrochemicals, refining, oil, telecommunications, and retail. Its retail outlets offer foods, groceries, apparel, footwear, toys, home improvement products, electronic goods, and farm implements and inputs. Apart from physical outlets, the company also sells products on its e-commerce channels. The study aims to assess the company's profitability over recent five fiscal years.

LITERATURE REVIEW

A number of research studies have been carried out on different aspects of financial performance analysis by the researchers, economists and academicians in India and abroad. Different authors have analysed performance in different perspectives. A review of these analyses is important in order to develop an approach that can be employed in the context of the study. Here are the reviews of the previous researches related to the present study, highlighting the application of financial ratios in assessing profitability, liquidity, and solvency, with a specific focus on their relevance to Reliance Industries Ltd.

- **Meghanathi&Chakrawal (2022)**, *An Analytical Study of Liquidity and Profitability: Analysis of Selected Oil and Gas Companies in India*. This study evaluates the liquidity and profitability of Reliance Industries Ltd. against other major Indian oil and gas firms from 2016-17 to 2020-21. Using key performance indicators like the current ratio and net profit ratio, the authors conclude that Reliance Industries Ltd. outperforms its peers in liquidity and profitability, as verified by an ANOVA analysis.
- **Lakshmi et al. (2021)**, *A Study on the Financial Analysis of Reliance Industries Limited*. This paper analyses Reliance Industries Ltd.'s financial performance over five years, focusing on liquidity, profitability, and turnover ratios. It finds strong profitability and turnover but highlights persistent liquidity issues, with current liabilities exceeding current assets. The authors emphasize the need for corrective actions to improve liquidity ratios for better financial stability.
- **Konwar (2023)**, *Financial Performance Analysis of Reliance Industries Ltd. – An Indian Conglomerate MNC*. This paper analyses the financial performance of Reliance Industries Limited (RIL) using ratio and trend analysis from 2017-18 to 2021-2022. It identifies strengths and weaknesses in RIL's financial position, emphasizing areas for improvement to achieve optimal ratios. Data is sourced from annual reports and reliable publications, with limitations acknowledged regarding data sources and analysis methods.



- **Parmar et al. (2023)**, *Research Paper on Financial Statement Analysis of Reliance Industries Limited*. This study evaluates the financial health of Reliance Industries Limited over the past four years, focusing on profitability ratios and overall financial statements. The authors analyse the financial environment affecting the company and assess critical decisions, such as dividend distribution and bonus debenture issuance, to understand their impact on performance. Data is derived from financial statements, and the analysis aims to provide insights into the company's decision-making process.

RESEARCH METHODOLOGY

Data Sources and Methodology

The study is based on secondary data. Financial data will be sourced from the annual reports of Reliance Industries Ltd., including the Balance Sheet and Income Statement. This will ensure that the analysis is grounded in accurate and reliable data. The data used for analysis complies with all regulatory standards, ensuring that it is accurate, reliable, and sufficient for assessing profitability.

Period of the study : The financial performance analysis of the company is done for the period of five years, starting from the financial year 2019-2020 to 2023-2024.

Analysis and Interpretation: The methodology employed in this study centers around **financial ratio analysis** to evaluate the company's ability. The study will involve the calculation of key profitability ratios as outlined as:

- **Gross Profit Margin:** Measures the percentage of revenue that exceeds the cost of goods sold.
- **Net Profit Margin:** Indicates the percentage of revenue remaining after all expenses have been deducted.
- **Operating Profit Margin:** Reflects the percentage of revenue left after covering operating expenses.
- **Return on Equity (ROE):** Evaluates how effectively the company generates profit from shareholders' equity.
- **Return on Assets (ROA):** Determines how efficiently the company uses its assets to generate profits.
- **Return on Capital Employed (ROCE):** Assesses how efficiently the company uses its capital (both equity and debt) to generate profit.
- **Earnings Per Share (EPS):** Indicates the portion of a company's profit allocated to each outstanding share of common stock, providing insight into profitability from a shareholder's perspective.

Subsequent to the calculation of ratios, the results will be analysed and interpreted in the context of Reliance's overall financial health. This includes comparing the calculated ratios against industry benchmarks and identifying strengths and weaknesses in the company's ability to generate profits.

Visual Representation: The results of the ratio analysis will be presented visually through bar graphs and tables, aiding in the clear communication of findings.

OBJECTIVES OF THE STUDY

The objective of this study is to evaluate the financial position of the company, analyse profitability, and assess its ability to generate profits over time.

The primary objectives of this study are:

- a) To analyse the profitability of Reliance Industries Ltd. through key financial ratios derived from its financial statements.
- b) To assess the company's profitability over recent fiscal years.
- c) To identify the strengths and weaknesses of Reliance Industries Ltd. based on the ratio analysis.
- d) To provide insights and recommendations that can aid stakeholders in making informed financial decisions.
- e) To present the analysis findings in a clear and visually accessible manner for stakeholders.

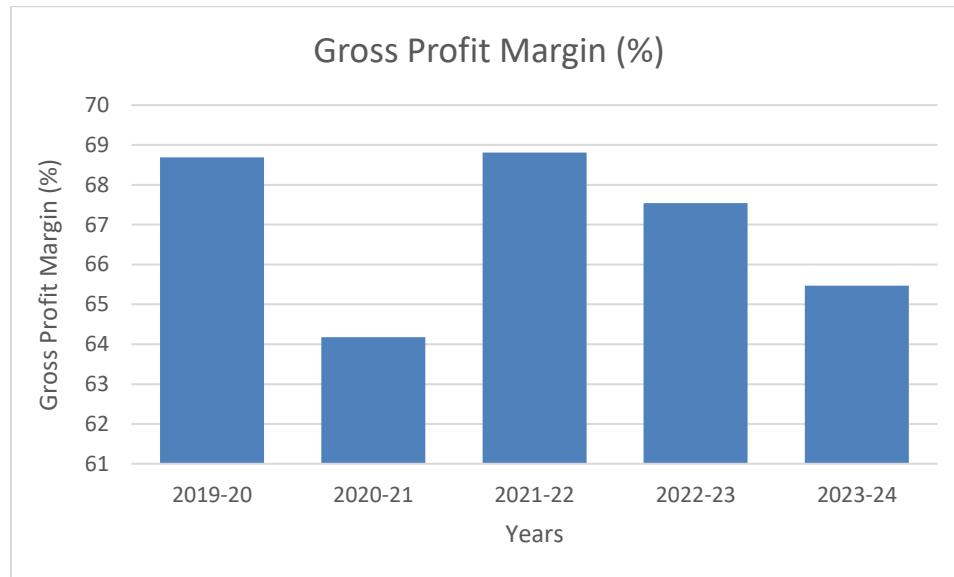
**ANALYSIS AND INTERPRETATION****Profitability Ratios****(1) Gross Profit Margin (%):**

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Total Revenue}} \times 100$$

Table 1 : Gross Profit Margin

Year	Gross Profit (In Cr.)	Total Revenue (In Cr.)	Gross Profit Margin (%)
2019-20	420142	611645	68.69
2020-21	312103	486326	64.18
2021-22	496584	721634	68.81
2022-23	601959	891311	67.54
2023-24	598751	914472	65.47
Mean (%)			66.94
Maximum (%)			68.81
Minimum (%)			64.18
Standard Deviation (%)			2.14
Range (Max – Min) (%)			4.63

Source: Annual reports of various years



Gross Profit Margin (GPM) showed moderate variability over the five-year period, with notable fluctuations. In 2019-20, the GPM was strong at 68.69%, demonstrating high profitability. However, the margin declined to 64.18% in 2020-21, reflecting decreased cost efficiency. The company was able to recover in 2021-22, with the GPM rising to 68.81%, signaling improvements in cost management. A slight dip occurred in 2022-23, with the GPM falling to 67.54%, indicating some pressure on profitability. In 2023-24, the margin further decreased to 65.47%, though it remained relatively stable. The average GPM was 66.94%, with a range of 4.63% and a standard deviation of 2.14%, highlighting fluctuations in profitability. Despite these declines, the company maintained a strong overall margin, underscoring the importance of cost control in ensuring long-term profitability.

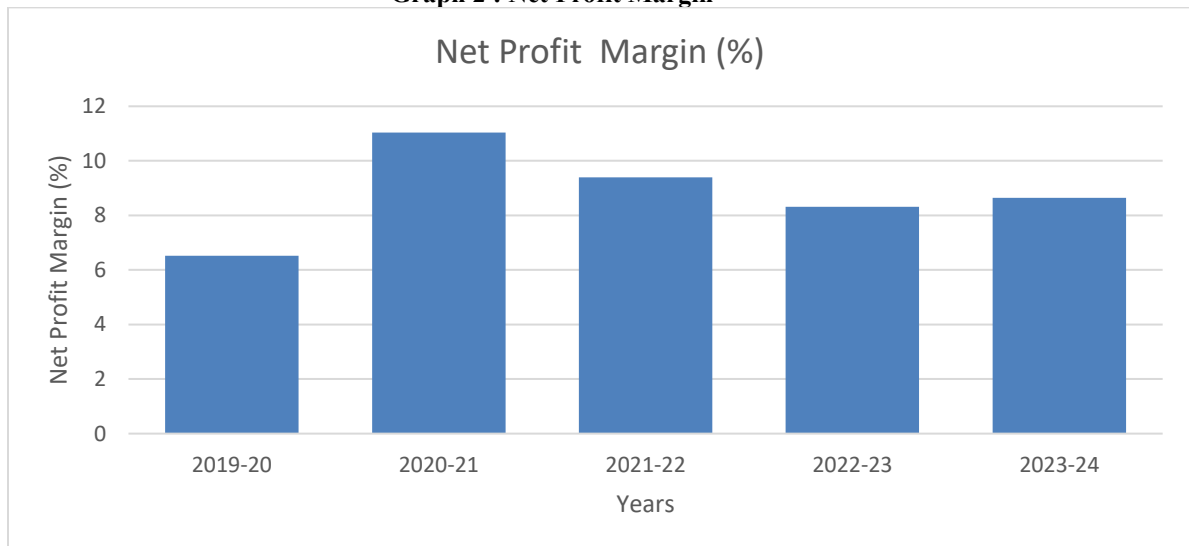
**(2) Net Profit Margin(%):**

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}} \times 100$$

Table 2 : Net Profit Margin

Year	Net Profit (In Cr.)	Total Revenue (In Cr.)	Net Profit Margin (%)
2019-20	39880	611645	6.52
2020-21	53739	486326	11.04
2021-22	67845	721634	9.40
2022-23	74088	891311	8.31
2023-24	79020	914472	8.64
Mean (%)			8.78
Maximum (%)			11.04
Minimum (%)			6.52
Standard Deviation(%)			1.65
Range (Max – Min) (%)			4.52

Source: Annual reports of various years

Graph 2 : Net Profit Margin

The Net Profit Margin (NPM) showed greater fluctuations during the period. In 2019-20, the NPM stood at 6.52%, reflecting lower profitability, likely due to higher operational costs. The margin significantly improved in 2020-21, reaching 11.04%, which can be attributed to better cost management and revenue growth. However, the NPM dropped to 9.40% in 2021-22 and further to 8.31% in 2022-23, indicating challenges in sustaining higher profitability. A slight recovery was seen in 2023-24, with the margin reaching 8.64%. The average NPM for the period was 8.78%, with a range of 4.52% and a standard deviation of 1.57%, showing moderate variability. These fluctuations suggest the need for consistent cost control and revenue optimization strategies to stabilize profitability.

While Reliance demonstrated the ability to achieve higher profitability, the fluctuations highlight the need for consistent cost control and revenue optimization. This analysis provides insight for stakeholders to focus on strategies that can stabilize and enhance profitability.

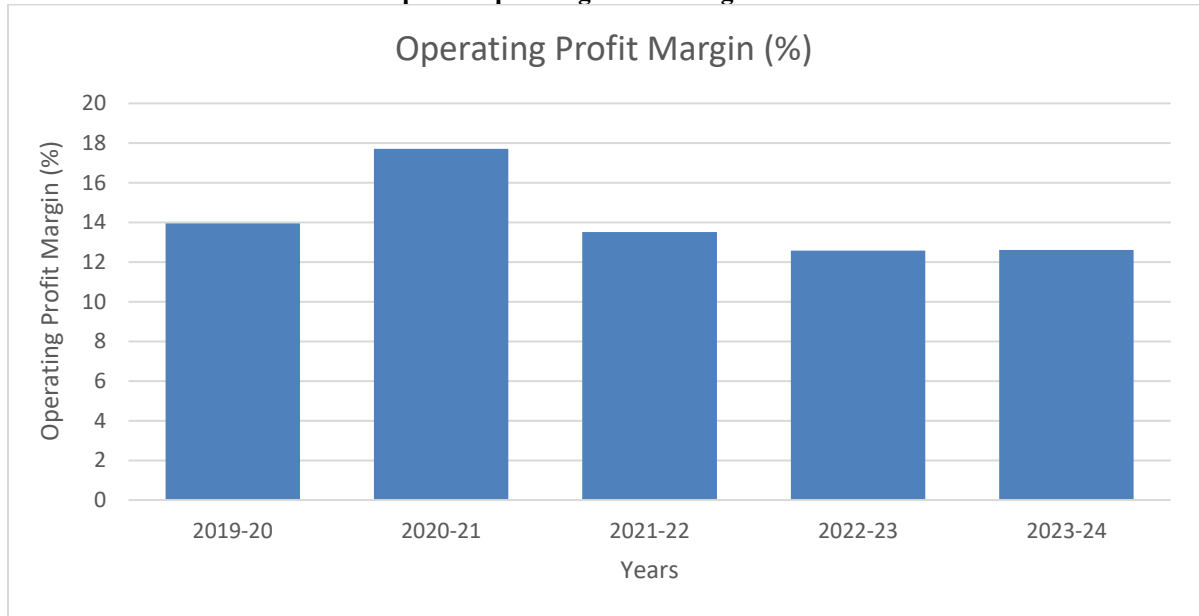
(3) Operating Profit Margin(%):

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

**Table 3 : Operating Profit Margin**

Year	Operating Profit	Net Sales (In Cr.)	Operating Profit Margin (%)
2019-20	85,322	611,645	13.95
2020-21	86,144	486,326	17.71
2021-22	97,580	721,634	13.52
2022-23	1,12,012	891,311	12.57
2023-24	1,15,289	914,472	12.61
Mean (%)			14.07
Maximum (%)			17.71
Minimum (%)			12.57
Standard Deviation (%)			2.10
Range (Max – Min) (%)			5.14

Source: Annual reports of various years

Graph 3 : Operating Profit Margin

The Operating Profit Margin (OPM) showed a similar pattern to the NPM, indicating variability in operational efficiency. The margin stood at 13.95% in 2019-20, indicating strong operational performance. It improved to 17.71% in 2020-21, reflecting effective cost management. However, the margin declined in the subsequent years, falling to 13.52% in 2021-22 and 12.57% in 2022-23. In 2023-24, there was a slight recovery to 12.61%. The average OPM for the period was 14.07%, with a range of 5.14% and a standard deviation of 2.10%, highlighting the need for consistent operational strategies to maintain profitability.

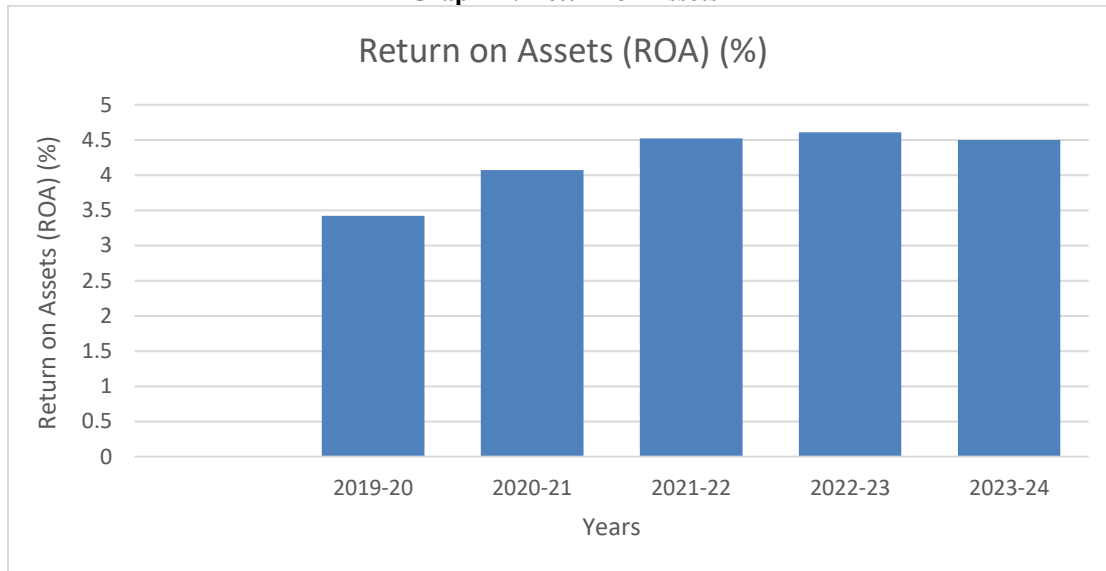
(4) Return on Assets (ROA)(%):

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

**Table 4 : Return on Assets**

Year	Net Profit (In Cr.)	Total Assets (In Cr.)	Return on Assets (ROA) (%)
2019-20	39880	1165915	3.42
2020-21	53739	1321212	4.07
2021-22	67845	1499665	4.52
2022-23	74088	1607431	4.61
2023-24	79020	1755986	4.50
Mean (%)			4.22
Maximum (%)			4.61
Minimum (%)			3.42
Standard Deviation (%)			0.44
Range (Max – Min) (%)			1.19

Source: Annual reports of various years

Graph 4 : Return on Assets

The Return on Assets (ROA) demonstrated a positive trend, indicating effective resource utilization. In 2019-20, the ROA was 3.42%, but it increased to 4.61% by 2022-23, showcasing strong performance. The ROA slightly decreased to 4.50% in 2023-24, but remained stable overall. The average ROA for the period was 4.22%, with a range of 1.19% and a standard deviation of 0.44%, signaling efficient asset management and a consistent ability to generate returns from assets.

(5) Return on Equity (ROE)(%):

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}} \times 100$$

Table 5 : Return on Equity

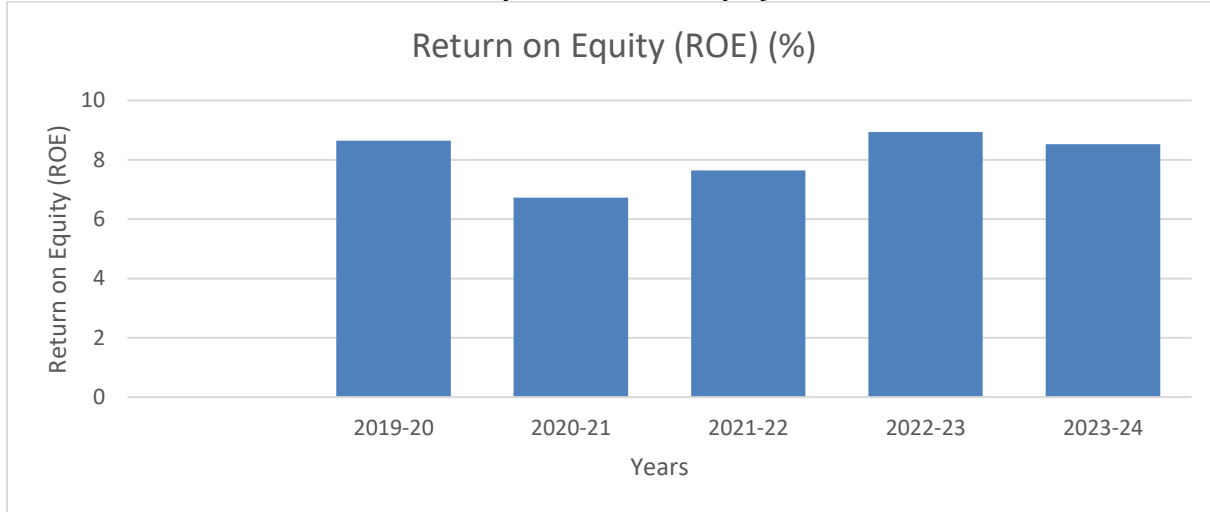
Year	Net Profit (In Cr.)	Shareholder's Equity (In Cr.)	Return on Equity (ROE) (%)
2019-20	39880	461347	8.64
2020-21	53739	799432	6.72
2021-22	67845	888984	7.64
2022-23	74088	828881	8.94
2023-24	79020	925788	8.53
Mean (%)			8.09
Maximum (%)			8.94



Minimum (%)			6.72
Standard Deviation (%)			0.91
Range (Max – Min) (%)			2.22

Source: Annual reports of various years

Graph 5 : Return on Equity



The Return on Equity (ROE) showed notable fluctuations, reflecting variations in profitability relative to shareholder equity. In 2019-20, the ROE was 8.64%, but it declined to 6.72% in 2020-21. A recovery was seen in 2021-22, with the ROE rising to 7.64%, followed by a peak at 8.94% in 2022-23. The ROE slightly decreased to 8.53% in 2023-24. The average ROE over the period was 8.09%, with a range of 2.22% and a standard deviation of 0.91%. This variability suggests that maintaining stable ROE will require continuous operational improvements and effective management of shareholder equity.

This variability highlights the importance of continuous evaluation and adaptation of operational strategies. Stakeholders should prioritize initiatives that enhance profitability and stabilize ROE to ensure sustainable growth and long-term value creation for shareholders.

(6) Return on Capital Employed (ROCE) (%):

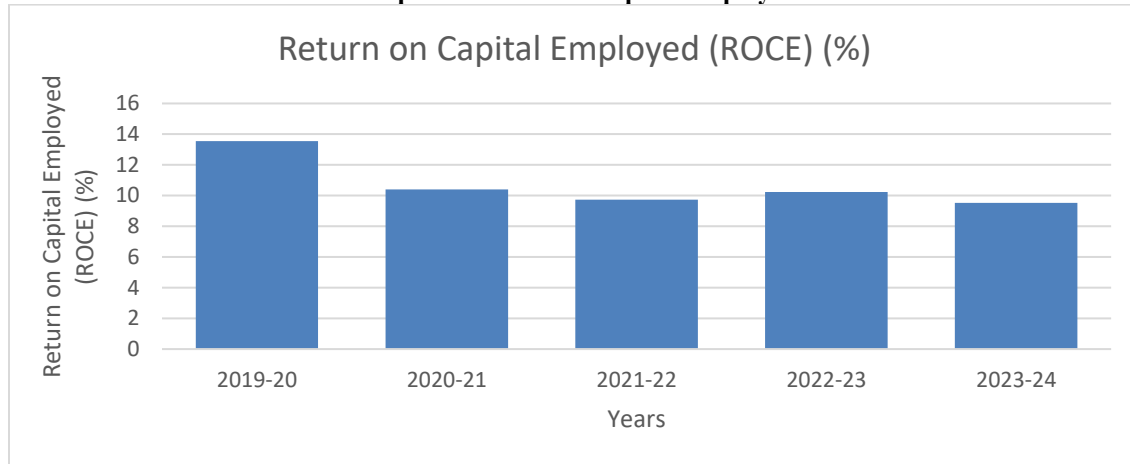
$$\text{Return on Capital Employed (ROCE)} = \frac{\text{EBIT}}{\text{Capital Employed}} \times 100$$

where, EBIT = Earnings Before Interest and Tax and Capital Employed = Total Assets – Current Liabilities

Table 6 : Return on Capital Employed

Year	EBIT (In Cr.)	Total Assets (In Cr.)	Current Liabilities (In Cr.)	Capital Employed (In Cr.)	Return on Capital Employed (ROCE) (%)
2019-20	1,02,032	1165915	412916	752999	13.55
2020-21	1,08,452	1321212	277568	1043644	10.39
2021-22	1,15,980	1499665	308662	1191003	9.74
2022-23	1,24,088	1607431	395743	1211688	10.24
2023-24	1,29,315	1755986	397367	1358619	9.52
Mean (%)					17.81
Maximum (%)					13.55
Minimum (%)					9.52
Standard Deviation (%)					1.64
Range (Max – Min) (%)					8.29

Source: Annual reports of various years

**Graph 6 : Return on Capital Employed**

The Return on Capital Employed (ROCE) showed declines throughout the period, from 13.55% in 2019-20 to 9.52% in 2023-24. The average ROCE was 10.69%, with a range of 4.03%, indicating challenges in optimizing capital utilization. The fluctuations suggest a need for improved capital management to enhance returns on invested capital. The fluctuations indicate that Reliance needs to focus on optimizing its capital structure to enhance returns consistently.

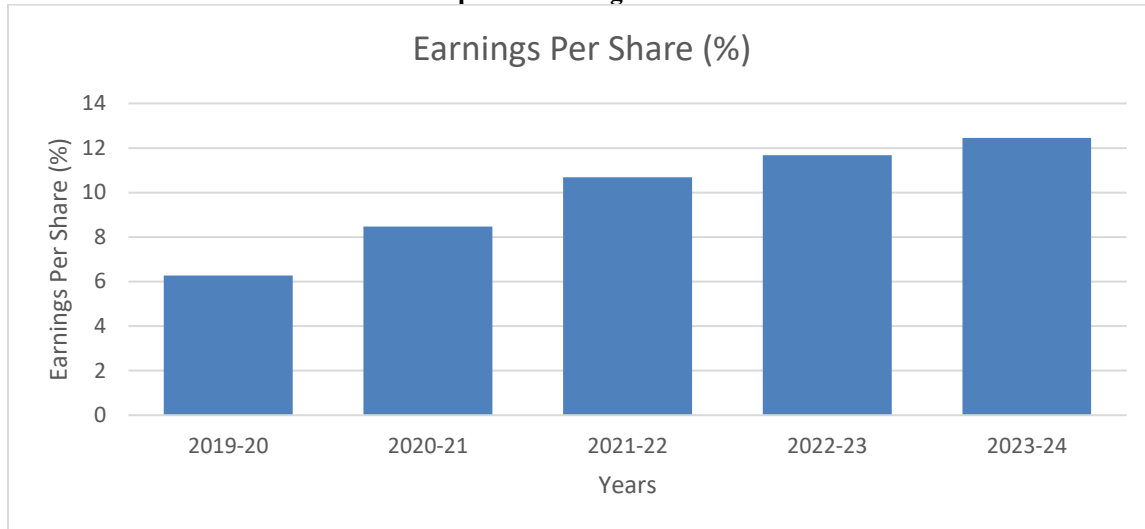
(7) Earnings Per Share (EPS) (%):

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Profit}}{\text{Total Equity Shares of the Company}}$$

Table 7 : Earnings Per Share

Year	Net Profit (In Cr.)	Total Equity Shares (In Cr.)	Earnings Per Share (%)
2019-20	39880	6,345	6.28
2020-21	53739	6,345	8.47
2021-22	67845	6,345	10.69
2022-23	74088	6,345	11.68
2023-24	79020	6,345	12.45
Mean (%)			9.91
Maximum (%)			12.45
Minimum (%)			6.28
Standard Deviation (%)			2.52
Range (Max – Min) (%)			6.17

Source: Annual reports of various years

**Graph 7 : Earnings Per Share**

Earnings Per Share (EPS) showed consistent growth over the period, increasing from Rs. 6.28 in 2019-20 to Rs. 12.45 in 2023-24. The average EPS was Rs. 9.91, with a range of Rs. 6.17. The steady increase in EPS reflects strong profitability and shareholder value creation. However, sustaining this growth will require continued operational and financial efficiency. The steady growth in EPS indicates a positive trend in profitability, which is beneficial for shareholders. However, maintaining this growth trajectory will require continuous operational and financial efficiency.

FINDINGS

Over the five-year period, Reliance Industries Ltd. exhibited overall strong performance, with some fluctuations in profitability and efficiency metrics. The Gross Profit Margin (GPM) remained robust, averaging 66.94%, though it declined slightly in certain years, emphasizing the need for consistent cost management. The Net Profit Margin (NPM) showed greater variability, peaking at 11.04% in 2020-21 but averaging 8.78%, highlighting challenges in sustaining high profitability.

The Operating Profit Margin (OPM) displayed moderate fluctuations, averaging 14.07%, while the Return on Assets (ROA) showed steady improvement, peaking at 4.61% in 2022-23 and averaging 4.22%. The Return on Equity (ROE) exhibited variability, averaging 8.09%, with a peak of 8.94% in 2022-23. Similarly, the Return on Capital Employed (ROCE) declined over the period, with an average of 10.69%, indicating room for improvement in capital utilization.

Earnings Per Share (EPS) demonstrated consistent growth, increasing from Rs. 6.28 in 2019-20 to Rs. 12.45 in 2023-24, reflecting strong shareholder returns. While Reliance maintained overall financial strength, the findings underscore the importance of continuous operational improvements, cost control, and strategic capital management to ensure sustained growth and profitability.

The company performance was good during the period 2016, 2017, 2018 and 2019 but in 2020, the company performance was not affected, due to lockdown happened cause of Covid-19 Pandemic across countries and affected the exports of the company.

CONCLUSION

Reliance Industries Ltd. demonstrated commendable financial performance over the five-year period, maintaining strong profitability and growth metrics despite periodic fluctuations. The company consistently achieved robust Gross Profit Margins and steady growth in Earnings Per Share, showcasing its ability to generate value for shareholders. However, variability in Net Profit Margin, Operating Profit Margin, and Return on Equity highlights the challenges in sustaining peak profitability and efficiency.

The decline in Return on Capital Employed and the need for improved asset utilization suggest opportunities to enhance capital efficiency. While the Return on Assets reflected stable performance, maintaining long-term growth will require ongoing efforts in cost control, operational efficiency, and strategic resource management.



To ensure sustainable profitability and shareholder value, Reliance must prioritize consistent financial discipline, effective capital utilization, and adaptability to market dynamics. These strategies will help the company navigate challenges and strengthen its position as a market leader.

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