

A Study on the Role of Financial Ratios in the Valuation of Reliance Ltd.

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Abstract - This study examines the impact of financial ratio analysis on corporate valuation, using Reliance Industries Ltd. as a case study. Financial ratios provide critical insights into a firm's profitability, solvency, liquidity, and market performance, serving as essential tools for investors and analysts. This study analyzes major financial coefficients for five years, emphasizes their role in understanding complex and diversified company evaluation, investment decisions, and strategic financial management of complex and diversified companies such as Reliance Industries LTD.

Key Words: Financial Ratios, Corporate Valuation, Reliance Industries, Liquidity, Profitability, Solvency, P/E Ratio, EPS, ROE

1. INTRODUCTION

Analysis of the financial ratio is the cornerstone of the modern evaluation method and provides a clear picture of the company's financial health. This research focuses on Reliance Industries Ltd., one of India's largest conglomerates, and investigates how financial ratios reflect intrinsic value and guide investment decisions. This study shows the strategic importance of corporate fiscal analysis while studying profitability, liquidity, payment ability and market coefficients.

1.1 Research Objectives

1. To analyze the significance of financial ratios in valuing Reliance Industries Ltd.
2. To evaluate the role of key ratios in assessing the company's financial health.
3. To examine how financial ratios impact investment decisions and valuation.

2 LITERATURE REVIEW

Financial ratios have long been determined as an important tool when evaluating our performance and ratings. Scientists such as Penman (2013) and Damodaran (2012) highlight the role of profitability and market-based conditions in estimating internal value. Altman's Z-score and Beaver's research shows prioritization of economic difficulties. In India, researchers emphasize the need to adapt traditional ratio analysis to complex companies such as trust. Overall, it has been shown that financial situations influence investor

behaviour, support valuation models and provide insight into the health of the company. In other words, it is essential for the analysis of diverse conglomerates such as the Reliance Industry.

3 RESEARCH METHODOLOGY

3.1 Area of Study

This study focuses on Reliance Industries Ltd. and analyzes how your financial situation reflects the impact of your performance and valuation. It bridges internal financial metrics with external investor perception, emphasizing the relevance of ratio analysis in a complex corporate structure.

3.2 Sample of Study

The sample was Reliance Industries Ltd., which was chosen because of its diverse structure and its relevance with the sample. The study was extended for over five years from 19 to 2022 to 23, documenting the impact of important economic events on performance.

3.3 Type of Study

This study is descriptive and analytical. This analytically interprets five-year ratio data to explain the rationale and importance of financial rates and to identify trends and impacts on valuations.

3.4 Tools for Data Collection

Secondary data from trusted sources such as management reports, financial websites (money controls, screeners), and market management were used. The terms collected include profitability, liquidity, solvency, efficiency, and market valuation metrics.

3.5 Method of Analysis

Analyses included trend analysis, descriptive statistics, and correlation tests. Graphical representations (lines and bar diagrams) were used to interpret the financial situation individually and how the financial situation existed along with valuation and inventory performance.

4. LIMITATIONS

- Single Company Focus:** The study focuses only on Reliance Industries Ltd, so the findings may not be applicable to companies in other industries or with simpler business models.
- Excludes Qualitative Factors:** Non-financial aspects like management quality, innovation, and brand value are not included, which may limit the comprehensiveness of the valuation.
- Reliance on Secondary Data:** Analysis relies solely on data from completed data from financial platforms. This requires accuracy and integrity without independent reviews.
- No Macroeconomic Consideration:** External factors like inflation, interest rates, and policy changes are not accounted for, which can impact company valuation and investor sentiment.
- Historical Perspective Only:** Financial ratios are based on past performance and may not fully reflect future risks or opportunities, especially in volatile market conditions.

5. RESULTS AND ANALYSIS

This analysis examines the role of financial ratios in the valuation of Reliance Industries Ltd. Five years were analyzed using key relationships such as EPS, ROE, current ratios, and P/E to assess financial health and market performance. The results show that investors' perceptions and stock prices have been highlighted. Vacancies and market-based conditions reflect consistent growth and stability. Comparative data highlights a strong position of trust, but capital efficiency remains lower than its colleagues. Overall, the analysis confirms that financial situation is a reliable indicator for understanding reviews and performance.

5.1 Data Presentation

Table-1: Five-Year Financials of Reliance Industries Ltd.

Year	Revenue	EBITDA	Net Profit	Total Assets	Total Equity	Total Debt
2018-19	6,22,809	1,02,280	39,588	11,23,573	4,09,322	2,87,505
2019-20	6,59,205	1,02,280	39,354	13,21,212	4,53,964	3,36,215
2020-21	4,86,326	84,354	53,739	14,96,558	5,36,176	2,55,891
2021-22	6,98,670	1,25,687	67,845	17,11,281	6,23,634	2,66,305
2022-23	9,78,365	1,54,087	73,670	17,71,402	7,09,394	2,93,381

Table 2: Key Financial Ratios

Ratio	2018-19	2019-20	2020-21	2021-22	2022-23
Current Ratio	0.59	0.63	0.92	1.03	0.88
Debt-Equity Ratio	0.7	0.74	0.48	0.43	0.41
ROCE (%)	11.4	10.3	8.3	9.7	9.3
ROE (%)	12.9	10.7	10.3	11.3	10.8
Net Profit Margin (%)	6.4	6	11	9.7	7.5
EPS (₹)	66	63.2	85.2	96.5	108.3
P/E Ratio	23	18.4	28.1	26.3	25.8
EV/EBITDA	13.7	13.2	20.2	18.1	17.6
Share	1325	1040	1962	2600	2650

Table-3: Comparative Analysis with Sectoral Benchmarks (2022-23)

Company	ROCE (%)	ROE (%)	Debt-Equity	Net Profit Margin (%)	P/E	EV/EBITDA
Reliance	9.3	10.8	0.41	7.5	25.8	17.6
TCS	48	44	0.02	21.4	29.2	20.5
ONGC	19.5	18	0.5	23.1	6.1	3.8
Bharti Airtel	9.8	5.3	1.35	4.3	52	9.5

5.2 Descriptive Analysis

From **Table 2**, we analyzed the **mean, median, and standard deviation** of key **financial ratios** from **2018-19 to 2022-23**, focusing on **liquidity, leverage, profitability, and valuation**. This helped assess **Reliance Ltd.'s financial stability and performance trends** over time. Liquidity and leverage ratios highlighted the company's ability to manage obligations and capital structure, while profitability and valuation metrics reflected its earnings efficiency and market perception. The statistical measures offered clear insights into the consistency and fluctuations in Reliance's financial health.

Ratio	Mean	Median	SD	Interpretation
Current Ratio	0.88	0.88	0.19	Indicates Reliance's steady liquidity management. Despite being below 1, it reflects efficient working capital use given strong cash flows.
Debt-Equity Ratio	0.552	0.48	0.16	Shows balanced leverage and a declining trend due to strategic debt reduction post major investments.
ROCE (%)	9.8	9.7	1.15	Reflects stable capital efficiency, with a post-pandemic recovery driven by digital and retail growth.
ROE (%)	10.8	10.8	1.01	Consistent shareholder returns with minimal volatility, highlighting effective equity utilization.
Net Profit Margin (%)	8.12	7.5	2.16	Improving margin trend, with variability during the pandemic and oil shocks.
EPS (₹)	83.84	85.2	19.4	Rising earnings per share underline strong profitability, especially in the last three years.
P/E Ratio	24.32	25.8	3.78	Market pricing in growth; moderate fluctuations reflect investor sentiment and macro shifts.
EV/EBITDA	17.6	17.6	3.01	Stable multiple showing steady market confidence in Reliance's operating performance.

5.3 Correlation Analysis: Financial Ratios vs. Stock Price

From Table 2, A Pearson correlation analysis was conducted to assess the relationship between key financial ratios and Reliance Industries' stock price. The results highlight which ratios most influence investor sentiment and have predictive value in stock valuation.

• EPS vs. Stock price

	EPS (₹)	Stock price
EPS (₹)	1	0.978
Stock price	0.978	1

Interpretation- This extremely strong positive correlation confirms that **earnings per share are the most critical factor driving stock price**. As Reliance improves profitability per share, investors respond with higher valuations. This underlines **EPS as the dominant valuation metric**.

• Current Ratio vs. Stock Price

	Current Ratio	Stock price
Current Ratio	1	0.887
Stock price	0.887	1

Interpretation- A high liquidity buffer boosts investor confidence, especially in capital-intensive firms like Reliance. Post its investment phase, Reliance's improved liquidity signals **financial prudence**, which positively impacts market sentiment

• P/E Ratio vs. Stock Price

	P/E Ratio	Stock price
P/E Ratio	1	0.778
Stock price	0.778	1

Interpretation- A high P/E indicates that the market has high expectations for future growth. The strong correlation shows that **stock price movements are partially driven by investor optimism**, often tied to projected performance.

• EV/EBITDA vs. Stock Price

	EV/EBITDA	Stock price
EV/EBITDA	1	0.755
Stock price	0.755	1

Interpretation-Indicates investors are valuing Reliance based on **core operating performance**, especially its scalable digital and retail businesses. Growth in EBITDA leads to higher enterprise valuations, lifting the stock

Net Profit Margin vs. Stock Price

	Net Profit Margin (%)	Stock price
Net Profit Margin (%)	1	0.577
Stock price	0.577	1

Interpretation- While only moderately correlated, improved efficiency in turning revenue into profit contributes positively to valuation. However, absolute profit (EPS) has a greater effect than margins alone.

ROE vs. Stock Price

	ROE (%)	Stock price
ROE (%)	1	-0.282
Stock price	-0.282	1

Interpretation- A weak inverse correlation might be explained by capital base expansion (e.g., equity issuance), which reduces ROE in the short term. Despite this, stock price growth continued, showing market focus on broader growth prospects rather than efficiency alone.

ROCE vs. Stock Price

	ROCE (%)	Stock price
ROCE (%)	1	-0.561
Stock price	-0.561	1

Interpretation- As capital-intensive investments increased, ROCE temporarily dipped. Yet the stock price rose, suggesting that investors are pricing in long-term returns, even if current returns on capital are suppressed.

Debt- Equity Ratio vs. Stock Price

	Debt-Equity Ratio	Stock price
Debt-Equity Ratio	1	-0.561
Stock price	-0.561	1

Interpretation: This strongest negative correlation highlights that deleveraging (reducing debt) has significantly boosted investor confidence and stock price. Investors favour a more conservative capital structure with lower risk.

5.4. Comparative Analysis

The graphs based on Table 3 offer a clear comparison of key financial ratios across selected companies, highlighting differences in financial performance.

ROCE (%) vs. Company

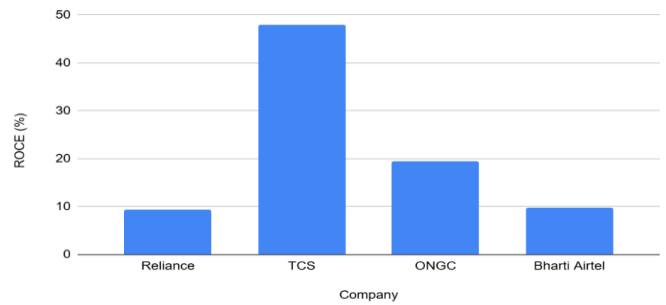


Figure 1: Comparison of ROCE Across Selected Companies

Interpretation: TCS leads with the highest ROCE, showing superior capital efficiency. ONGC follows with a solid return, while Reliance and Bharti Airtel lag, indicating less effective use of capital employed.

ROE (%) vs. Company

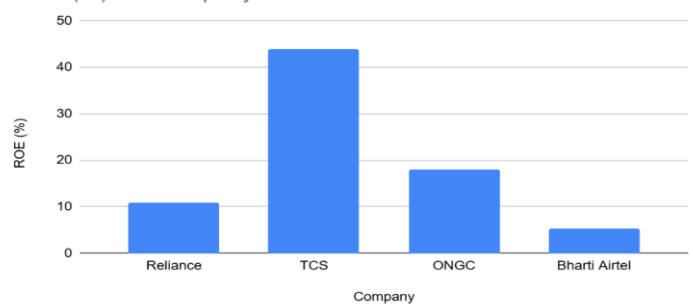


Figure 2: Comparison of ROE Across Selected Companies

Interpretation: TCS again dominates with the highest ROE, signalling excellent returns on shareholders' equity. ONGC and Reliance show moderate performance, while Bharti Airtel's low ROE suggests weaker profitability from shareholders' funds.

Debt-Equity vs. Company

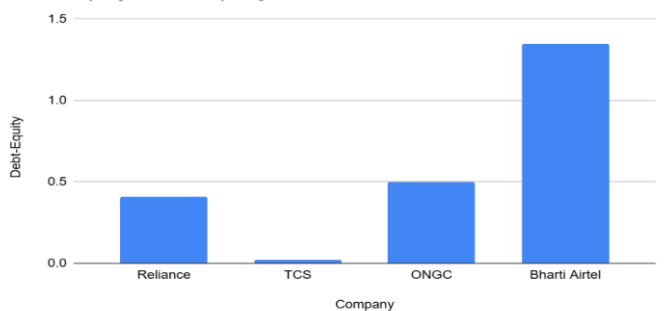


Figure 3: Debt-Equity Ratio Comparison Among Selected Companies

Interpretation: TCS and ONGC maintain very low debt levels, suggesting strong solvency. Reliance is moderately leveraged, while Bharti Airtel has a high debt-equity ratio, indicating higher financial risk.

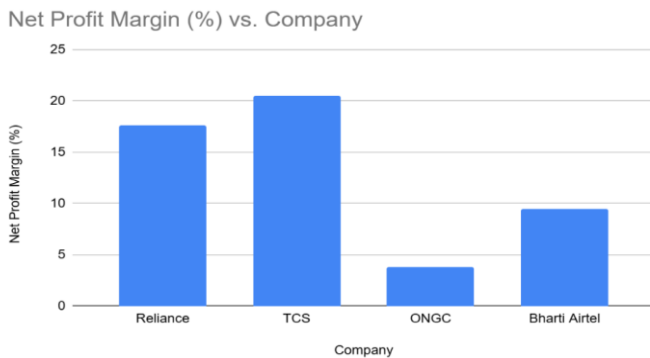


Figure 4: Net Profit Margin Comparison Among Selected Companies

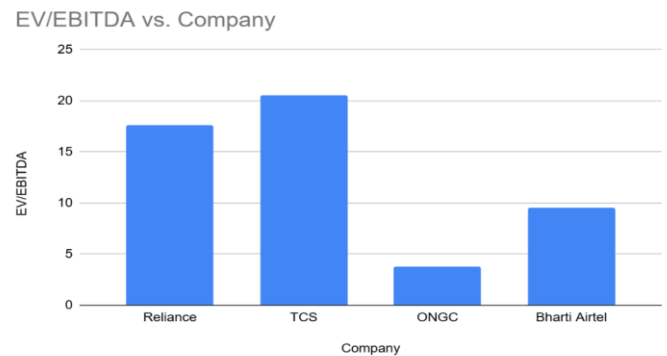


Figure 6: EV/EBITDA Comparison Among Selected Companies

Company	ROCE (%)	ROE (%)	Debt-Equity	Net Profit Margin (%)	P/E	EV/EBITDA
Reliance	9.3	10.8	0.41	7.5	25.8	17.6
TCS	48	44	0.02	21.4	29.2	20.5
ONGC	19.5	18	0.5	23.1	6.1	3.8
Bharti Airtel	9.8	5.3	1.35	4.3	52	9.5

Interpretation: ONGC and TCS show robust profit margins, implying efficient cost control and strong profitability. Reliance holds a middle ground, whereas Bharti Airtel's low margin reflects tight earnings.

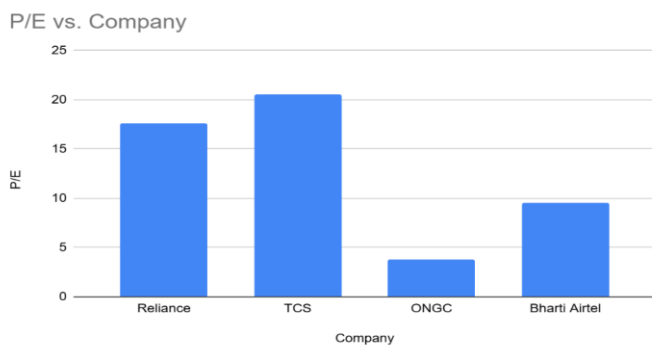


Figure 5: Price-to-Earnings Comparison Among Selected Companies

Interpretation: Bharti Airtel has the highest P/E, suggesting investor optimism or overvaluation. TCS and Reliance have moderate values, while ONGC's low P/E may imply undervaluation or market concerns.

Interpretation: ONGC has the most attractive EV/EBITDA, indicating potential undervaluation. TCS and Bharti Airtel have high values, showing premium valuation, while Reliance stands in between.

Interpretation: High ROCE and ROE indicate efficient use of capital and strong shareholder returns. Low debt-equity suggests financial stability, while high net profit margins reflect good cost control. A high P/E signals growth expectations; a low one may suggest undervaluation. Lower EV/EBITDA implies attractive valuation, while higher values indicate expected growth

3.5 Trend Analysis

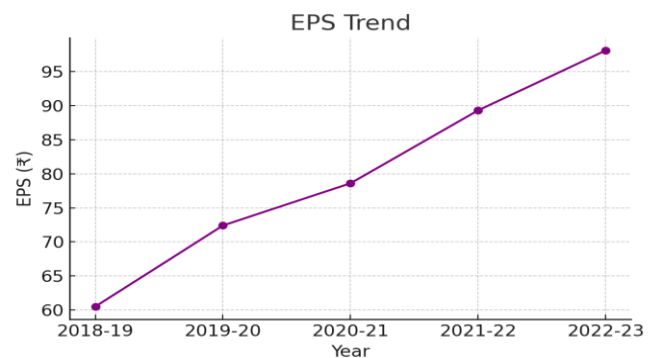


Figure 7: Trend of EPS for Reliance (2018-2023)

Interpretation: The EPS shows a consistent rise from ₹60.5 in 2018-19 to ₹98.2 in 2022-23, indicating strong profitability growth. This upward trend reflects enhanced earnings potential and value creation for shareholders.

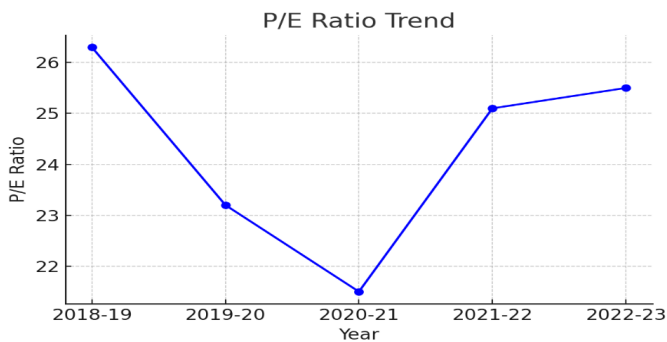


Figure 8: Trend of P/E Ratio for Reliance (2019-2023)

Interpretation: The P/E ratio declined till 2020-21 but rebounded sharply, reflecting initial market caution and later renewed optimism. This indicates growing investor confidence and willingness to pay a premium for the company's earnings.

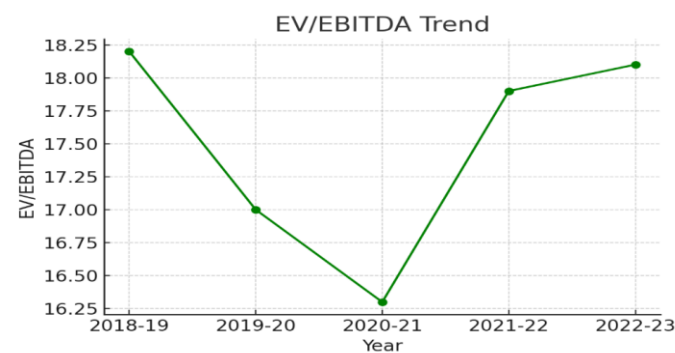


Figure 9: Trend of EV/EBITDA Ratio for Reliance (2019-2023)

Interpretation: The EV/EBITDA ratio dipped till 2020-21 and then recovered, suggesting temporary undervaluation during the pandemic followed by regained investor confidence. The return to higher levels indicates a fairer valuation aligned with earnings strength.

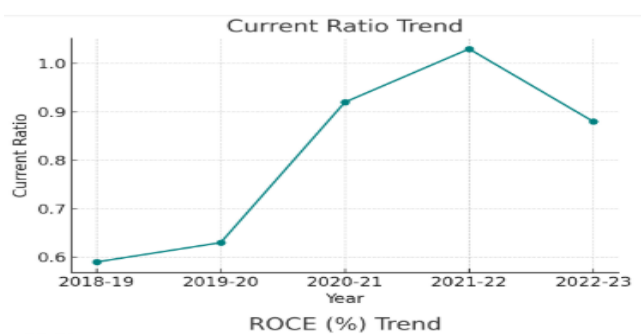


Figure 10: Trend of Current Ratio for Reliance (2019-2023)

Interpretation: The current ratio increased steadily from 0.59 in 2019 to a peak of 1.03 in 2022, indicating improving short-term liquidity. However, it slightly declined to 0.88 in 2023, suggesting a moderate reduction in the company's ability to cover short-term obligations.

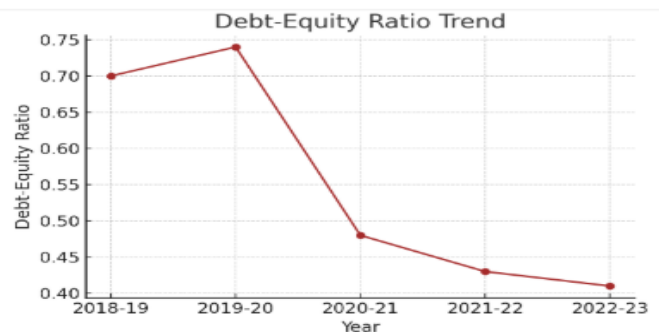


Figure 11: Trend of Debt-Equity Ratio for Reliance (2019-2023)

Interpretation: The debt-equity ratio consistently declined from 0.70 in 2019 to 0.41 in 2023. This trend reflects a strong move toward deleveraging and a healthier capital structure with lower reliance on debt.

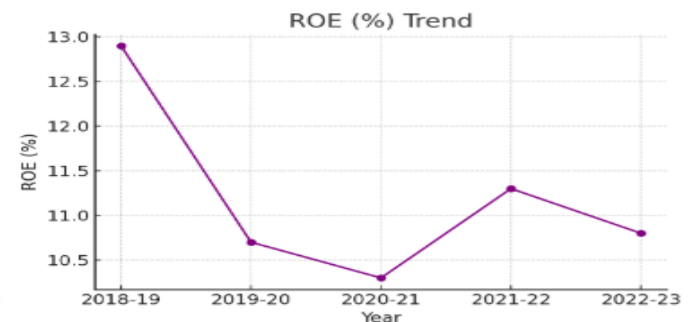


Figure 12: Trend of ROE for Reliance (2019-2023)

Interpretation: ROE dropped from 12.9% in 2019 to 10.3% in 2021, followed by a modest recovery to 11.3% in 2022 and a slight dip to 10.8% in 2023. The trend shows pressure on shareholder returns, though recovery efforts are visible.

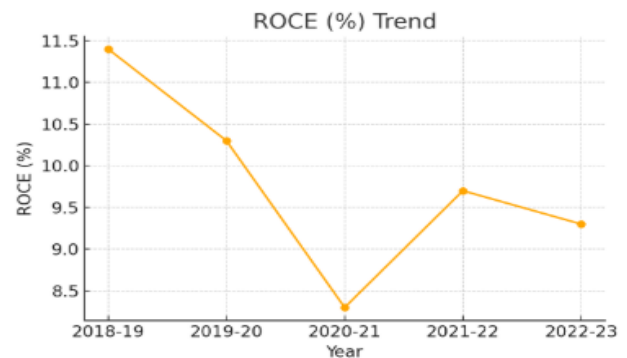


Figure 13: Trend of ROCE for Reliance (2019-2023)

Interpretation: ROCE declined from 11.4% in 2019 to a low of 8.3% in 2021 but rebounded to 9.7% in 2022 before slightly tapering to 9.3% in 2023. This indicates some recovery in operational efficiency post-pandemic.

6. CONCLUSIONS

The study concludes that financial ratios are essential tools for evaluating the performance and valuation of Reliance Industries Ltd. Ratios like EPS, ROE, and Debt-to-Equity provide valuable insights into profitability, stability, and investor perception. The analysis confirms that these indicators significantly influence stock valuation and market confidence. For a diversified company like Reliance, ratio analysis is critical in understanding segment-wise performance and guiding strategic decisions. Overall, financial ratios serve as reliable benchmarks for assessing corporate health and long-term value.

7. RECOMMENDATIONS

1. **Adopt a Multi-Ratio Approach:** Relying on a single ratio can be misleading. A combination of profitability, liquidity, solvency, and market-based ratios gives a more accurate financial picture.
2. **Benchmark with Industry Peers:** Comparing ratios with similar companies helps identify areas of strength and weakness, improving strategic decision-making.
3. **Focus on Long-Term Trends:** Analysing ratios over several years provides insight into consistent patterns and avoids misinterpretation due to short-term fluctuations.
4. **Integrate Qualitative Factors:** Combine financial ratios with non-financial aspects like ESG performance, leadership quality, and innovation capacity for better valuation.
5. **Consider External Influences:** Regulatory changes, interest rates, and economic trends can impact financial ratios and should be factored into analysis.
6. **Use Financial Technology Tools:** Use modern tools and dashboards for real-time finance monitoring and visual analysis of ratio trends.
7. **Promote Investor Education:** Ensure that investors, particularly retail investors, can correctly interpret financial ratios and make decisions that are discovered properly.

8. SCOPE FOR FUTURE RESEARCH

1. **Cross-Industry Comparison:** Study how financial ratios vary in importance across sectors like tech vs. manufacturing.
2. **Qualitative Factors:** Include non-financial elements (e.g., governance, macroeconomics) to enhance valuation accuracy.

3. **Advanced Analytics:** Use AI, ML, and statistical models to improve the predictive power of financial ratios.
4. **Long-Term & Post-Pandemic Trends:** Analyse data over 10–20 years and post-COVID to assess long-term ratio behaviour.
5. **Investor Behaviour:** Explore how different investor types react to financial ratios using sentiment and behavioural finance.
6. **Alternative Metrics:** Compare traditional ratios with metrics like EVA and DCF for better valuation insights.
7. **Global Benchmarking:** Contrast Reliance's ratios with global peers to understand cross-border valuation effectiveness.

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