**Executive Summary**

 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.

Finally, I study ratio analysis, fund flow analysis and cash flow analysis of the company to analyzing the financial position of the company in last four years.

 **Introduction**

 The study of financial statement is prepared for the purpose of presenting a periodical review or report by the management of and deal with the state of investment in business and result achieved during the period under review. They reflect the financial position and operating strengths or weaknesses of the concern by properly establishing relationship between the items of the balance sheet and remove statements.

 Financial statement analysis can be under taken either by the management of the firm or by the outside parties. The nature of analysis defers depending upon the purpose of the analysis. The analyst is able to say how well the firm could utilize the resource of the society in generating goods and services. Turnover ratios are the best tools in deciding these aspects.

 Hence it is overall responsibility of the management to see that the resource of the firm is used most efficiently and effectively and that the firm’s financial position is good. Financial statement analysis does indicate what can be expected in future from the firm.

**Meaning of Financial Statement**

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. The team financial statement includes at least two statements which the accountant prepares at the end of an accounting period. The two statements are: -

* The Balance Sheet
* Profit And Loss Account

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

**Meaning of Financial Analysis**

The first task of financial analysis is to select the information relevant to the decision under consideration to the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusions. Financial statement is the process of selection, relation and evaluation.

**Features of Financial Analysis**

* To present a complex data contained in the financial statement in simple and understandable form.
* To classify the items contained in the financial statement inconvenient and rational groups.
* To make comparison between various groups to draw various conclusions.

**Purpose of Analysis of financial statements**

* To know the earning capacity or profitability.
* To know the solvency.
* To know the financial strengths.
* To know the capability of payment of interest & dividends.
* To make comparative study with other firms.
* To know the trend of business.
* To know the efficiency of mgt.
* To provide useful information to mgt

**Procedure of Financial Statement Analysis**

* The following procedure is adopted for the analysis and interpretation of financial statements:-
* The analyst should acquaint himself with principles and postulated of accounting. He should know the plans and policies of the managements that he may be able to find out whether these plans are properly executed or not.
* The extent of analysis should be determined so that the sphere of work may be decided. If the aim is find out. Earning capacity of the enterprise then analysis of income statement will be undertaken. On the other hand, if financial position is to be studied then balance sheet analysis will be necessary.
* The financial data be given in statement should be recognized and rearranged. It will involve the grouping similar data under same heads. Breaking down of individual components of statement according to nature. The data is reduced to a standard form. A relationship is established among financial statements with the help of tools & techniques of analysis such as ratios, trends, common size, fund flow etc.
* The information is interpreted in a simple and understandable way. The significance and utility of financial data is explained for help indecision making.
* The conclusions drawn from interpretation are presented to the management in the form of reports.

Analyzing financial statements involves evaluating three characteristics of a company: its liquidity, its profitability, and its insolvency. A short-term creditor, such as a bank, is primarily interested in the ability of the borrower to pay obligations when they come due. The liquidity of the borrower is extremely important in evaluating the safety of a loan. A long-term creditor, such as a bondholder, however, looks to profitability and solvency measures that indicate the company’s ability to survive over a long period of time. Long-term creditors consider such measures as the amount of debt in the company’s capital structure and its ability to meet interest payments. Similarly, stockholders are interested in the profitability and solvency of the company. They want to assess the likelihood of dividends and the growth potential of the stock**.**

Comparison can be made on a number of different bases.

Following are the three illustrations:

1. **Intra-company basis.**

 This basis compares an item or financial relationship within a company in the current year with the same item or relationship in one or more prior years. For example, Sears, Roebuck and Co. can compare its cash balance at the end of the current year with last year’s balance to find the amount of the increase or decrease. Likewise, Sears can compare the percentage of cash to current assets at the end of the current year with the percentage in one or more prior years. Intra-company comparisons are useful in detecting changes in financial relationships and significant trends.

2. Industry averages.

 This basis compares an item or financial relationship of a company with industry averages (or norms) published by financial ratings organizations such as Dun & Bradstreet, Moody’s and Standard & Poor’s. For example, Sears’s net income can be compared with the average net income of all companies in the retail chain-store industry. Comparisons with industry averages provide information as to a company’s relative performance within the industry.

3. **Intercompany basis.**

This basis compares an item or financial relationship of one company with the same item or relationship in one or more competing companies. The comparisons are made on the basis of the published financial statements of the individual companies. For example, Sears’s total sales for the year can be compared with the total sales of its major competitors such as Kmart and Wal-Mart. Intercompany comparisons are useful in determining a company’s competitive position.

**Tools of Financial Statement Analysis**

Various tools are used to evaluate the significance of financial statement data. Three commonly used tools are these:

* **Ratio Analysis**
* **Funds Flow Analysis**
* **Cash Flow Analysis**
* Ratio Analysis:
* Fundamental Analysis has a very broad scope. One aspect looks at the general (qualitative) factors of a company. The other side considers tangible and measurable factors (quantitative). This means crunching and analyzing numbers from the financial statements. If used in conjunction with other methods, quantitative analysis can produce excellent results.
* Ratio analysis isn't just comparing different numbers from the balance sheet, income statement, and cash flow statement. It's comparing the number against previous years, other companies, the industry, or even the economy in general. Ratios look at the relationships between individual values and relate them to how a company has performed in the past, and might perform in the future.

##### Meaning of Ratio:

A ratio is one figure express in terms of another figure. It is a mathematical yardstick that measures the relationship two figures, which are related to each other and mutually interdependent. Ratio is express by dividing one figure by the other related figure. Thus a ratio is an expression relating one number to another. It is simply the quotient of two numbers. It can be expressed as a fraction or as a decimal or as a pure ratio or in absolute figures as “so many times”. As accounting ratio is an expression relating two figures or accounts or two sets of account heads or group contain in the financial statements.

#### Meaning of Ratio Analysis:

Ratio analysis is the method or process by which the relationship of items or group of items in the financial statement are computed, determined and presented.

Ratio analysis is an attempt to derive quantitative measure or guides concerning the financial health and profitability of business enterprises. Ratio analysis can be used both in trend and static analysis. There are several ratios at the disposal of an analyst but their group of ratio he would prefer depends on the purpose and the objective of analysis.

While a detailed explanation of ratio analysis is beyond the scope of this section, we will focus on a technique, which is easy to use. It can provide you with a valuable investment analysis tool.

This technique is called **cross-sectional analysis**. Cross-sectional analysis compares financial ratios of several companies from the same industry. Ratio analysis can provide valuable information about a company's financial health. A financial ratio measures a company's performance in a specific area. For example, you could use a ratio of a company's debt to its equity to measure a company's leverage. By comparing the leverage ratios of two companies, you can determine which company uses greater debt in the conduct of its business. A company whose leverage ratio is higher than a competitor's has more debt per equity. You can use this information to make a judgment as to which company is a better investment risk.

However, you must be careful not to place too much importance on one ratio. You obtain a better indication of the direction in which a company is moving when several ratios are taken as a group.

Objective of Ratios:

 Ratios are worked out to analyze the following aspects of business organization-

1. **Solvency-**
	1. Long term
	2. Short term
	3. Immediate
2. **Stability**
3. **Profitability**
4. **Operational efficiency**
5. **Credit standing**
6. **Structural analysis**
7. **Effective utilization of resources**
8. **Leverage or external financing**

**STEPS IN RATIO ANALYSIS:**

* The first task of the financial analysis is to select the information relevant to the decision under consideration from the statements and calculates appropriate ratios.
* To compare the calculated ratios with the ratios of the same firm relating to the pas6t or with the industry ratios. It facilitates in assessing success or failure of the firm.
* Third step is to interpretation, drawing of inferences and report writing conclusions are drawn after comparison in the shape of report or recommended courses of action.
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**Pre-Requisites to Ratio Analysis:**

In order to use the ratio analysis as device to make purposeful conclusions, there are certain pre-requisites, which must be taken care of. It may be noted that these prerequisites are not conditions for calculations for meaningful conclusions. The accounting figures are inactive in them & can be used for any ratio but meaningful & correct interpretation & conclusion can be arrived at only if the following points are well considered.

1. The dates of different financial statements from where data is taken must be same.
2. If possible, only audited financial statements should be considered, otherwise there must be sufficient evidence that the data is correct.
3. Accounting policies followed by different firms must be same in case of cross section analysis otherwise the results of the ratio analysis would be distorted.
4. One ratio may not throw light on any performance of the firm. Therefore, a group of ratios must be preferred. This will be conductive to counter checks.
5. Last but not least, the analyst must find out that the two figures being used to calculate a ratio must be related to each other, otherwise there is no purpose of calculating a ratio.

**GUIDELINES OR PRECAUTIONS FOR USE OF RATIOS:**

The calculation of ratios may not be a difficult task but their use is not easy. Following guidelines or factors may be kept in mind while interpreting various ratios are

* Accuracy of financial statements
* Objective or purpose of analysis
* Selection of ratios
* Use of standards
* Caliber of the analysis

**Importance of Ratio Analysis:**

As a tool of financial management, ratios are of crucial significance. The importance of ratio analysis lies in the fact that it presents facts on a comparative basis & enables the drawing of interference regarding the performance of a firm. Ratio analysis is relevant in assessing the performance of a firm in respect of the following aspects:

1] Liquidity position

2] Long-term solvency

3] Operating efficiency

4] Overall profitability

5] Inter firm comparison

6] Trend analysis.

**1] Liquidity position: -**

With the help of Ratio analysis conclusion can be drawn regarding the liquidity position of a firm. The liquidity position of a firm would be satisfactory if it is able to meet its current obligation when they become due. A firm can be said to have the ability to meet its short-term liabilities if it has sufficient liquid funds to pay the interest on its short maturing debt usually within a year as well as to repay the principal. This ability is reflected in the liquidity ratio of a firm. The liquidity ratio is particularly useful in credit analysis by bank & other suppliers of short term loans.

**2] Long-term solvency: -**

Ratio analysis is equally useful for assessing the long-term financial viability of a firm. This respect of the financial position of a borrower is of concern to the long-term creditors, security analyst & the present & potential owners of a business. The long-term solvency is measured by the leverage/ capital structure & profitability ratio Ratio analysis s that focus on earning power & operating efficiency.

Ratio analysis reveals the strength & weaknesses of a firm in this respect. The leverage ratios, for instance, will indicate whether a firm has a reasonable proportion of various sources of finance or if it is heavily loaded with debt in which case its solvency is exposed to serious strain. Similarly the various profitability ratios would reveal whether or not the firm is able to offer adequate return to its owners consistent with the risk involved.

**3] Operating efficiency:**

Yet another dimension of the useful of the ratio analysis, relevant from the viewpoint of management, is that it throws light on the degree of efficiency in management & utilization of its assets. The various activity ratios measure this kind of operational efficiency. In fact, the solvency of a firm is, in the ultimate analysis, dependent upon the sales revenues generated by the use of its assets- total as well as its components.

**4] Overall profitability:**

Unlike the outsides parties, which are interested in one aspect of the financial position of a firm, the management is constantly concerned about overall profitability of the enterprise. That is, they are concerned about the ability of the firm to meets its short term as well as long term obligations to its creditors, to ensure a reasonable return to its owners & secure optimum utilization of the assets of the firm. This is possible if an integrated view is taken & all the ratios are considered together.

**5] Inter firm comparison:**

Ratio analysis not only throws light on the financial position of firm but also serves as a stepping-stone to remedial measures. This is made possible due to inter firm comparison & comparison with the industry averages. A single figure of a particular ratio is meaningless unless it is related to some standard or norm. One of the popular techniques is to compare the ratios of a firm with the industry average. It should be reasonably expected that the performance of a firm should be in broad conformity with that of the industry to which it belongs. An inter firm comparison would demonstrate the firms position vice-versa its competitors. If the results are at variance either with the industry average or with those of the competitors, the firm can seek to identify the probable reasons & in light, take remedial measures.

**6] Trend analysis:**

Finally, ratio analysis enables a firm to take the time dimension into account. In other words, whether the financial position of a firm is improving or deteriorating over the years. This is made possible by the use of trend analysis. The significance of the trend analysis of ratio lies in the fact that the analysts can know the direction of movement, that is, whether the movement is favorable or unfavorable. For example, the ratio may be low as compared to the norm but the trend may be upward. On the other hand, though the present level may be satisfactory but the trend may be a declining one.

## Advantages of Ratio Analysis:

## Financial ratios are essentially concerned with the identification of significant accounting data relationships, which give the decision-maker insights into the financial performance of a company. The advantages of ratio analysis can be summarized as follows:

* Ratios facilitate conducting trend analysis, which is important for decision making and forecasting.
* Ratio analysis helps in the assessment of the liquidity, operating efficiency, profitability and solvency of a firm.
* Ratio analysis provides a basis for both intra-firm as well as inter-firm comparisons.
* The comparison of actual ratios with base year ratios or standard ratios helps the management analyze the financial performance of the firm.

## Limitations of Ratio Analysis:

Ratio analysis has its limitations. These limitations are described below:

**1] Information problems**

* **Ratios require quantitative information for analysis but it is not decisive about analytical output.**
* The figures in a set of accounts are likely to be at least several months out of date, and so might not give a proper indication of the company’s current financial position.
* Where historical cost convention is used, asset valuations in the balance sheet could be misleading. Ratios based on this information will not be very useful for decision-making.

**2] Comparison of performance over time**

* When comparing performance over time, there is need to consider the changes in price. The movement in performance should be in line with the changes in price.
* When comparing performance over time, there is need to consider the changes in technology. The movement in performance should be in line with the changes in technology.
* Changes in accounting policy may affect the comparison of results between different accounting years as misleading.

**3] Inter-firm comparison**

* Companies may have different capital structures and to make comparison of performance when one is all equity financed and another is a geared company it may not be a good analysis.
* Selective application of government incentives to various companies may also distort intercompany comparison. Comparing the performance of two enterprises may be misleading.
* Inter-firm comparison may not be useful unless the firms compared are of the same size and age, and employ similar production methods and accounting practices.
* Even within a company, comparisons can be distorted by changes in the price level.
* Ratios provide only quantitative information, not qualitative information.
* Ratios are calculated on the basis of past financial statements. They do not indicate future trends and they do not consider economic conditions.Evaluation of efficiency
* Effective tool

**CLASSIFICATIONS OF RATIOS:**

The use of ratio analysis is not confined to financial manager only. There are different parties interested in the ratio analysis for knowing the financial position of a firm for different purposes. Various accounting ratios can be classified as follows:

1. Traditional Classification
2. Functional Classification
3. Significance ratios

**1.** **Traditional Classification**

It includes the following.

* Balance sheet (or) position statement ratio: They deal with the relationship between two balance sheet items, e.g. the ratio of current assets to current liabilities etc., both the items must, however, pertain to the same balance sheet.
* Profit & loss account (or) revenue statement ratios: These ratios deal with the relationship between two profit & loss account items, e.g. the ratio of gross profit to sales etc.,
* Composite (or) inter statement ratios: These ratios exhibit the relation between a profit & loss account or income statement item and a balance sheet items, e.g. stock turnover ratio, or the ratio of total assets to sales.

**2. Functional Classification**

These include liquidity ratios, long term solvency and leverage ratios, activity ratios and profitability ratios.

**3. Significance ratios**

Some ratios are important than others and the firm may classify them as primary and secondary ratios. The primary ratio is one, which is of the prime importance to a concern. The other ratios that support the primary ratio are called secondary ratios.

**IN THE VIEW OF FUNCTIONAL CLASSIFICATION THE RATIOS ARE**

1. Liquidity ratio

2. Leverage ratio

3. Activity ratio

4. Profitability ratio

**1. LIQUIDITY RATIOS**

Liquidity refers to the ability of a concern to meet its current obligations as & when there becomes due. The short term obligations of a firm can be met only when there are sufficient liquid assets. The short term obligations are met by realizing amounts from current, floating (or) circulating assets The current assets should either be calculated liquid (or) near liquidity. They should be convertible into cash for paying obligations of short term nature. The sufficiency (or) insufficiency of current assets should be assessed by comparing them with short-term current liabilities. If current assets can pay off current liabilities, then liquidity position will be satisfactory.

To measure the liquidity of a firm the following ratios can be calculated

* Current ratio
* Quick (or) Acid-test (or) Liquid ratio
* Absolute liquid ratio (or) Cash position ratio

**(a) CURRENT RATIO:**

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio also known as Working capital ratio is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position (or) liquidity of a firm.

 **Current assets**

**Current ratio = Current Liabilities**

**Components of current ratio**

|  |  |
| --- | --- |
| **CURRENT ASSETS** | **CURRENT LIABILITIES** |
| Cash in hand | Out standing or accrued expenses |
| Cash at bank | Bank over draft |
| Bills receivable | Bills payable |
| Inventories | Short-term advances |
| Work-in-progress | Sundry creditors |
| Marketable securities | Dividend payable |
| Short-term investments | Income-tax payable |
| Sundry debtors |   |
| Prepaid expenses |   |

**(b) QUICK RATIO:**

Quick ratio is a test of liquidity than the current ratio. The term liquidity refers to the ability of a firm to pay its short-term obligations as & when they become due. Quick ratio may be defined as the relationship between quick or liquid assets and current liabilities. An asset is said to be liquid if it is converted into cash with in a short period without loss of value.

 **Quick or liquid assets**

**Quick ratio = Current Liabilities**

**Components of quick or liquid ratio**

|  |  |
| --- | --- |
| **QUICK ASSETS** | **CURRENT LIABILITIES** |
| Cash in hand | Out standing or accrued expenses |
| Cash at bank | Bank over draft |
| Bills receivable | Bills payable |
| Sundry debtors | Short-term advances |
| Marketable securities | Sundry creditors |
| Temporary investments | Dividend payable |
|   | Income tax payable |

**(c) ABSOLUTE LIQUID RATIO**

Although receivable, debtors and bills receivable are generally more liquid than inventories, yet there may be doubts regarding their realization into cash immediately or in time. Hence, absolute liquid ratio should also be calculated together with current ratio and quick ratio so as to exclude even receivables from the current assets and find out the absolute liquid assets.

 **Absolute liquid assets**

**Absolute liquid ratio = Current liabilities**

Absolute liquid assets include cash in hand etc. The acceptable forms for this ratio is 50% (or) 0.5:1 (or) 1:2 i.e., Rs.1 worth absolute liquid assets are considered to pay Rs.2 worth current liabilities in time as all the creditors are nor accepted to demand cash at the same time and then cash may also be realized from debtors and inventories.

**Components of Absolute Liquid Ratio**

|  |  |
| --- | --- |
| **ABSOLUTE LIQUID ASSETS** | **CURRENT LIABILITIES** |
| Cash in hand | Out standing or accrued expenses |
| Cash at bank | Bank over draft |
| Interest on Fixed Deposit | Bills payable |
|   | Short-term advances |
|   | Sundry creditors |
|   | Dividend payable |
|   | Income tax payable |

**2. LEVERAGE RATIOS**

The leverage or solvency ratio refers to the ability of a concern to meet its long term obligations. Accordingly, long term solvency ratios indicate firm’s ability to meet the fixed interest and costs and repayment schedules associated with its long term borrowings.

The following ratio serves the purpose of determining the solvency of the concern.

* **PROPRIETORY RATIO**

A variant to the debt-equity ratio is the proprietory ratio which is also known as equity ratio. This ratio establishes relationship between share holders funds to total assets of the firm.

 **Shareholders funds**

**Proprietory ratio = Total assets**

|  |  |
| --- | --- |
| **SHARE HOLDERS FUND** | **TOTAL ASSETS** |
| Share Capital | Fixed Assets |
| Reserves & Surplus | **Current Assets** |
|   |  Cash in hand & at bank |
|   |  Bills receivable |
|   |  Inventories |
|   |  Marketable securities |
|   |  Short-term investments |
|   |  Sundry debtors |
|  |  Prepaid Expenses |

**3. ACTIVITY RATIOS**

Funds are invested in various assets in business to make sales and earn profits. The efficiency with which assets are managed directly effect the volume of sales. Activity ratios measure the efficiency (or) effectiveness with which a firm manages its resources (or) assets. These ratios are also called “Turn over ratios” because they indicate the speed with which assets are converted or turned over into sales.

* Working capital turnover ratio
* Fixed assets turnover ratio
* Capital turnover ratio
* Current assets to fixed assets ratio

**(a) WORKING CAPITAL TURNOVER RATIO**

Working capital of a concern is directly related to sales.

 **Working capital = Current assets - Current liabilities**

It indicates the velocity of the utilization of net working capital. This indicates the no. of times the working capital is turned over in the course of a year. A higher ratio indicates efficient utilization of working capital and a lower ratio indicates inefficient utilization.

Working capital turnover ratio=cost of goods sold/working capital.

**Components of Working Capital**

|  |  |
| --- | --- |
| **CURRENT ASSETS** | **CURRENT LIABILITIES** |
| Cash in hand | Out standing or accrued expenses |
| Cash at bank | Bank over draft |
| Bills receivable | Bills payable |
| Inventories | Short-term advances |
| Work-in-progress | Sundry creditors |
| Marketable securities | Dividend payable |
| Short-term investments | Income-tax payable |
| Sundry debtors |   |
| Prepaid expenses |   |

**(b) FIXED ASSETS TURNOVER RATIO**

It is also known as sales to fixed assets ratio. This ratio measures the efficiency and profit earning capacity of the firm. Higher the ratio, greater is the intensive utilization of fixed assets. Lower ratio means under-utilization of fixed assets.

 **Cost of Sales**

**Fixed assets turnover ratio = Net fixed assets**

**Cost of Sales = Income from Services**

**Net Fixed Assets = Fixed Assets - Depreciation**

**(c) CAPITAL TURNOVER RATIOS**

Sometimes the efficiency and effectiveness of the operations are judged by comparing the cost of sales or sales with amount of capital invested in the business and not with assets held in the business, though in both cases the same result is expected. Capital invested in the business may be classified as long-term and short-term capital or as fixed capital and working capital or Owned Capital and Loaned Capital. All Capital Turnovers are calculated to study the uses of various types of capital.

 **Cost of goods sold**

**Capital turnover ratio = Capital employed**

**Cost of Goods Sold = Income from Services**

**Capital Employed = Capital + Reserves & Surplus**

**(d) CURRENT ASSETS TO FIXED ASSETS RATIO**

 This ratio differs from industry to industry. The increase in the ratio means that trading is slack or mechanization has been used. A decline in the ratio means that debtors and stocks are increased too much or fixed assets are more intensively used. If current assets increase with the corresponding increase in profit, it will show that the business is expanding.

 **Current Assets**

**Current Assets to Fixed Assets Ratio = Fixed Assets**

**Component of Current Assets to Fixed Assets Ratio**

|  |  |
| --- | --- |
| **CURRENT ASSETS** | **FIXED ASSETS** |
| Cash in hand | Machinery |
| Cash at bank | Buildings |
| Bills receivable | Plant |
| Inventories | Vehicles |
| Work-in-progress |   |
| Marketable securities |   |
| Short-term investments |   |
| Sundry debtors |   |
| Prepaid expenses |   |

**4. PROFITABILITY RATIOS**

The primary objectives of business undertaking are to earn profits. Because profit is the engine, that drives the business enterprise.

* Net profit ratio
* Return on total assets
* Reserves and surplus to capital ratio
* Earnings per share
* Operating profit ratio
* Price – earning ratio
* Return on investments

**(a) NET PROFIT RATIO**

Net profit ratio establishes a relationship between net profit (after tax) and sales and indicates the efficiency of the management in manufacturing, selling administrative and other activities of the firm.

 **Net profit after tax**

**Net profit ratio= Net sales**

**Net Profit after Tax = Net Profit (–) Depreciation (–) Interest (–) Income Tax**

**Net Sales = Income from Services**

It also indicates the firm’s capacity to face adverse economic conditions such as price competitors, low demand etc. Obviously higher the ratio, the better is the profitability.

**(b) RETURN ON TOTAL ASSETS**

Profitability can be measured in terms of relationship between net profit and assets. This ratio is also known as profit-to-assets ratio. It measures the profitability of investments. The overall profitability can be known.

 **Net profit**

**Return on assets = Total assets**

**Net Profit = Earnings before Interest and Tax**

**Total Assets = Fixed Assets + Current Assets**

**(c) RESERVES AND SURPLUS TO CAPITAL RATIO**

It reveals the policy pursued by the company with regard to growth shares. A very high ratio indicates a conservative dividend policy and increased ploughing back to profit. Higher the ratio better will be the position.

 **Reserves& surplus**

**Reserves & surplus to capital = Capital**

**(d) EARNINGS PER SHARE**

Earnings per share is a small verification of return of equity and is calculated by dividing the net profits earned by the company and those profits after taxes and preference dividend by total no. of equity shares.

 **Net profit after tax**

**Earnings per share = Number of Equity shares**

The Earnings per share is a good measure of profitability when compared with EPS of similar other components (or) companies, it gives a view of the comparative earnings of a firm.

**(e) OPERATING PROFIT RATIO**

Operating ratio establishes the relationship between cost of goods sold and other operating expenses on the one hand and the sales on the other.

 **Operating cost**

**Operation ratio = Net sales**

However 75 to 85% may be considered to be a good ratio in case of a manufacturing under taking.

Operating profit ratio is calculated by dividing operating profit by sales.

**Operating profit = Net sales - Operating cost**

 **Operating profit**

**Operating profit ratio = Sales**

**(f) PRICE - EARNING RATIO**

Price earning ratio is the ratio between market price per equity share and earnings per share. The ratio is calculated to make an estimate of appreciation in the value of a share of a company and is widely used by investors to decide whether (or) not to buy shares in a particular company.

Generally, higher the price-earning ratio, the better it is. If the price earning ratio falls, the management should look into the causes that have resulted into the fall of the ratio.

 **Market Price per Share**

**Price – Earning Ratio = aEarnings per Share**

 **Capital + Reserves & Surplus**

**Market Price per Share = Number of Equity Shares**

**Earnings before Interest and Tax**

**Earnings per Share = Number of Equity Shares**

**(g) RETURN ON INVESTMENTS**

Return on share holder’s investment, popularly known as Return on investments (or) return on share holders or proprietor’s funds is the relationship between net profit (after interest and tax) and the proprietor’s funds.

 **Net profit (after interest and tax)**

**Return on shareholder’s investment = Shareholder’s funds**

The ratio is generally calculated as percentages by multiplying the above with 100.

**Purpose of Ratio Analysis:**

1] To identify aspects of a business’s performance to aid decision making

2] Quantitative process – may need to be supplemented by qualitative factors to get a complete picture.

3] 5 main areas-

* **Liquidity** – the ability of the firm to pay its way
* **Investment/shareholders** – information to enable decisions to be made on the extent of the risk and the earning potential of a business investment
* **Gearing** – information on the relationship between the exposure of the business to loans as opposed to share capital
* **Profitability** – how effective the firm is at generating profits given sales and or its capital assets
* **Financial** – the rate at which the company sells its stock and the efficiency with which it uses its assets

**Role of Ratio Analysis:**

It is true that the technique of ratio analysis is not a creative technique in the sense that it uses the same figure & information, which is already appearing in the financial statement. At the same time, it is true that what can be achieved by the technique of ratio analysis cannot be achieved by the mere preparation of financial statement.

Ratio analysis helps to appraise the firm in terms of their profitability & efficiency of performance, either individually or in relation to those of other firms in the same industry. The process of this appraisal is not complete until the ratio so computed can be compared with something, as the ratio all by them do not mean anything. This comparison may be in the form of intra firm comparison, inter firm comparison or comparison with standard ratios. Thus proper comparison of ratios may reveal where a firm is placed as compared with earlier period or in comparison with the other firms in the same industry.

Ratio analysis is one of the best possible techniques available to the management to impart the basic functions like planning & control. As the future is closely related to the immediate past, ratio calculated on the basis of historical financial statements may be of good assistance to predict the future. Ratio analysis also helps to locate & point out the various areas, which need the management attention in order to improve the situation.

As the ratio analysis is concerned with all the aspect of a firms financial analysis i.e. liquidity, solvency, activity, profitability & overall performance, it enables the interested persons to know the financial & operational characteristics of an organisation & take the suitable decision.

**Fund Flow Analysis:**

Fund may be interpreted in various ways as

(a) Cash,

(b) Total current assets,

(c) Net working capital,

(d) Net current assets.

For the purpose of fund flow statement the term means net working capital. The flow of fund will occur in a business, when a transaction results in a change i.e., increase or decrease in the amount of fund.

According to Robert Anthony the funds flow statement describes the sources from which additional funds were derived and the uses to which these funds were put.

In short, it is a technical device designed to highlight the changes in the financial condition of a business enterprise between two balance sheets.

Different names of Fund-Flow Statement

* A Funds Statement
* A statement of sources and uses of fund
* A statement of sources and application of fund
* Where got and where gone statement
* Inflow and outflow of fund statement

Objectives of Fund Flow Statement

The main purposes of FFS are:

* To help to understand the changes in assets and asset sources which are not readily evident in the income statement or financial statement.
* To inform as to how the loans to the business have been used.
* To point out the financial strengths and weaknesses of the business.

Format of Fund Flow Statement

|  |  |
| --- | --- |
| Sources | Applications |
| Fund from operation | Fund lost in operations |
| Non-trading incomes | Non-operating expenses |
| Issue of shares | Redemption of redeemable preference share |
| Issue of debentures | Redemption of debentures |
| Borrowing of loans | Repayment of loans |
| Acceptance of deposits | Repayment of deposits |
| Sale of fixed assets | Purchase of fixed assets |
| Sale of investments (Long Term) | Purchase of long term investments |
| Decrease in working capital | Increase in working capital |

Steps in Preparation of Fund Flow Statement.

1. Preparation of schedule changes in working capital (taking current items only).
2. Preparation of adjusted profit and loss account (to know fund from or fund lost in operations).
3. Preparation of accounts for non-current items (Ascertain the hidden information).

Preparation of the fund flow statement.

**Cash Flow Statement:**

Cash is a life blood of business. It is an important tool of cash planning and control. A firm receives cash from various sources like sales, debtors, sale of assets investments etc. Likewise, the firm needs cash to make payment to salaries, rent dividend, interest etc.

Cash flow statement reveals that inflow and outflow of cash during a particular period. It is prepared on the basis of historical data showing the inflow and outflow of cash.

Objectives of Cash Flow Statement

1. To show the causes of changes in cash balance between the balance sheet dates.
2. To show the actors contributing to the reduction of cash balance inspire of increasing of profit or decreasing profit.

Uses of Cash Flow Statement

1. It explaining the reasons for low cash balance.
2. It shows the major sources and uses of cash.
3. It helps in short term financial decisions relating to liquidity.
4. From the past year statements projections can be made for the future.
5. It helps the management in planning the repayment of loans, credit arrangements etc.

Steps in Preparing Cash Flow Statement

1. Opening of accounts for non-current items (to find out the hidden information).
2. Preparation of adjusted P&L account (to find out cash from operation or profit, and cash lot in operation or loss).
3. Comparison of current items (to find out inflow or outflow of cash).
4. Preparation of Cash Flow Statement.

To preparing Account for all non-current items is easier for preparing Cash Flow Statement.

Cash from operation can be prepared by this formula also.

**Net Profit + Decrease in Current Assets - Increase in Current Assets**

 **OR OR**

**Increase in Current Liabilities Decrease in Current Liabilities**.

Usefulness of the Statement of Cash Flows

The information in a statement of cash flows should help investors, creditors, and others assess the following aspects of the firm’s financial position.

* The entity’s ability to generate future cash flows.

By examining relationships between items in the statement of cash flows, investors and others can make predictions of the amounts, timing, and uncertainty of future cash flows better than they can from accrual basis data.

* The entity’s ability to pay dividends and meet obligations.

If a company does not have adequate cash, employees cannot be paid, debts settled, or dividends paid. Employees, creditors, and stockholders should be particularly interested in this statement, because it alone shows the flows of cash in a business.

* The cash investing and financing transactions during the period.

By examining a company’s investing and financing transactions, a financial statement reader can better understand why assets and liabilities changed during the period.

1. **The reasons for the difference between net income and net cash**

Net income provides information on the success or failure of a business enterprise. However, some are critical of accrual basis net income because it requires many estimates. As a result, the reliability of the number is often challenged. Such is not the case with cash. Many readers of the statement of cash flows want to know the reasons for the difference between net income and net cash provided by operating activities. Then they can assess for themselves the reliability of the income number.

In summary, the information in the statement of cash flows is useful in answering the following questions.

* How did cash increase when there was a net loss for the period?
* How were the proceeds of the bond issue used?
* How were the expansions in the plant and equipment financed?
* Why were dividends not increased?
* How was the retirement of debt accomplished?
* How much money was borrowed during the year?
* Is cash flow greater or less than net income?

**Cash Flow Statement**

|  |  |  |  |
| --- | --- | --- | --- |
| Inflow of Cash | Amount | Outflow of cash | Amount |
| Opening cash balance | \*\*\* | Redemption of preference shares | \*\*\* |
| Cash from operation | \*\*\* | Redemption of debentures | \*\*\* |
| Sales of assets | \*\*\* | Repayment of loans | \*\*\* |
| Issue of debentures | \*\*\* | Payment of dividends | \*\*\* |
| Raising of loans | \*\*\* | Pay of tax | \*\*\* |
| Collection from debentures | \*\*\* | Cash lost in debentures | \*\*\* |
| Refund of tax | \*\*\* | Closing cash balance | \*\*\* |

Cash from operation can be calculated in two ways:

Cash Sales Method

Cash Sales – (Cash Purchase + Cash Operation Expenses)

Net Profit Method

It can be prepared in statement form or by Adjusted Profit and Loss Account.

 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.

* + - 1. To study the present financial system at Reliance Industry.
			2. To determine the Profitability, Liquidity Ratios, Cash flow and Fund flow statement.
			3. To analyze the capital structure of the company with the help of      Leverage ratio.
			4. To offer appropriate suggestions for the better performance of the organization

 **Research Methodology**

* Research is defined as a systematic, gathering recording and analysis of data about problem relating to any particular field.
* It determines strength reliability and accuracy of the project.
1. Research Design: Research Design pertains to the great research approach or strategy adopted for a particular project. A research project has to be the conducted scientifically making sure that the data is collected adequately and economically.

 The study used a **descriptive** research design for the purpose of getting an insight over the issue. It is to provide an accurate picture of some aspects of market environment. Descriptive research is used when the objective is to provide a systematic description that is as factual and accurate as possible.

2. Method of Data Collection:

**Secondary Data:** Through the internet and published data

**Company Profile**

The Reliance group, founded by **Dhirubhai H Ambani (1932-2002)**, is India’s largest private sector enterprise, with businesses in the energy and material value chain. The flagship company, Reliance Industries Limited, is a Fortune Global 500 company and is the largest private sector company in India. The chairman of the company is **Mukesh Ambani.**

The company is India’s largest **petrochemical firm** and among the country’s largest companies (along with the likes of **Indian Oil** and **Tata Group**). Oil refining and the manufacture of polyfines account for nearly all of Reliance’s sales. It also makes textiles and explores for oil and gas, though those businesses are relatively small. In 2009 the company merged with its oil and gas refining subsidiary (Reliance Petroleum) in order to boost the operational and financial synergies of Reliance as a major refining company.



 **Reliance Industries Limited** ([NSE](http://en.wikipedia.org/wiki/National_Stock_Exchange_of_India): [RELIANCE](http://www.nseindia.com/marketinfo/equities/quotesearch.jsp?companyname=RELIANCE&submit1=go&series=EQ&flag=0)) is [India](http://en.wikipedia.org/wiki/India)'s largest [private sector](http://en.wikipedia.org/wiki/Private_sector) [conglomerate](http://en.wikipedia.org/wiki/Conglomerate_%28company%29) (by market value) , with an annual turnover of [US $](http://en.wikipedia.org/wiki/US%24) 35.9 billion and profit of US$ 4.85 billion for the fiscal year ending in March 2008 making it one of India's private sector [Fortune Global 500](http://en.wikipedia.org/wiki/Fortune_Global_500) companies, being ranked at 206th position (2008). It was founded by the Indian industrialist [Dhirubhai Ambani](http://en.wikipedia.org/wiki/Dhirubhai_Ambani) in 1966. Ambani has been a pioneer in introducing financial instruments like fully convertible debentures to the Indian stock markets. Ambani was one of the first entrepreneurs to draw retail investors to the stock markets. Critics allege that the rise of Reliance Industries to the top slot in terms of market capitalization is largely due to Dhirubhai's ability to manipulate the levers of a controlled economy to his advantage. Though the company's oil-related operations form the core of its business, it has diversified its operations in recent years. After severe differences between the founder's two sons, [Mukesh Ambani](http://en.wikipedia.org/wiki/Mukesh_Ambani) and [Anil Ambani](http://en.wikipedia.org/wiki/Anil_Ambani), the group was divided between them in 2006. In September 2008, Reliance Industries was the only Indian firm featured in the [Forbes](http://en.wikipedia.org/wiki/Forbes)'s list of "world's 100 most respected companies**Stock**

According to the company website "1 out of every 4 investors in India is a Reliance shareholder.”. Reliance has more than 3 million shareholders, making it one of the world's most widely held stocks. Reliance Industries Ltd, subsequent to its split in January 2006 has continued to grow. Reliance companies have been among the best performing in the Indian stock market.

## Products

Reliance Industries Limited has a wide range of products from [petroleum products](http://en.wikipedia.org/wiki/Petroleum_products), [petrochemicals](http://en.wikipedia.org/wiki/Petrochemicals), to [garments](http://en.wikipedia.org/wiki/Garments) (under the brand name of Vimal), [Reliance Retail](http://en.wikipedia.org/w/index.php?title=Reliance_Retail&action=edit&redlink=1) has entered into the fresh foods market as [Reliance Fresh](http://en.wikipedia.org/wiki/Reliance_Fresh) and launched a new chain called Delight Reliance Retail and [NOVA Chemicals](http://en.wikipedia.org/wiki/NOVA_Chemicals) have signed a letter of intent to make energy-efficient structures. The primary business of the company is petroleum refining and petrochemicals. It operates a 33 million tone refinery at Jamnagar in the Indian state of Gujarat. Reliance has also completed a second refinery of 29 million tons at the same site which started operations in December 2008. The company is also involved in oil & gas exploration and production. In 2002, it struck a major find on India's eastern coast in the [Krishna Godavari basin](http://en.wikipedia.org/wiki/Krishna_Godavari_basin). Gas production from this find was started on April 2, 2009. As of the end of 3rd quarter of 2009-2010, gas production from the KG D6 ramped up to 60 MMSCMD.

**Subsidiaries**

Major Subsidiaries & Associates

* [Reliance Petroleum](http://en.wikipedia.org/wiki/Reliance_Petroleum) **Limited (RPL)** was a subsidiary of Reliance Industries Limited (RIL) and was created to exploit the emerging opportunities, creating value in the refining sector worldwide. Currently, RPL stands amalgamated with RIL.
* [Reliance Life Sciences](http://en.wikipedia.org/wiki/Reliance_Life_Sciences) is a research-driven, biotechnology-led, life sciences organization that participates in medical, plant and industrial biotechnology opportunities. Specifically, these relate to Biopharmaceuticals, Pharmaceuticals, Clinical Research Services, Regenerative Medicine, Molecular Medicine, Novel Therapeutics, Bio-fuels, Plant Biotechnology and Industrial Biotechnology.
* [Reliance Industrial Infrastructure Limited](http://en.wikipedia.org/wiki/Reliance_Industrial_Infrastructure_Limited) **(RIIL)** is engaged in the business of setting up / operating Industrial Infrastructure that also involves leasing and providing services connected with computer software and data processing.
* [Reliance Institute of Life Sciences](http://en.wikipedia.org/wiki/Reliance_Institute_of_Life_Sciences) **(Rils)** established by Dhirubhai Ambani Foundation, is an institution of higher education in various fields of life sciences and related technologies.
* [Reliance Logistics](http://en.wikipedia.org/wiki/Reliance_Logistics) **(P) Limited** is a single window solutions provider for transportation, distribution, warehousing, logistics, and supply chain needs, supported by in house state of art telemetric and telemetry solutions.
* [Reliance Clinical Research Services](http://www.relclin.com) **(RCRS),** a contract research organization (CRO) and wholly owned subsidiary of Reliance Life Sciences, has been set up to provide clinical research services to pharmaceutical, biotechnology and medical device companies.
* [Reliance Solar](http://en.wikipedia.org/wiki/Reliance_Solar)**,** The solar energy initiative of Reliance aims to bring solar energy systems and solutions primarily to remote and rural areas and bring about a transformation in the quality of life.
* [Relicord](http://en.wikipedia.org/wiki/Relicord) is the first and one of the most dependable stem-cell banking services of South East Asia offered by [Mukesh Ambani](http://en.wikipedia.org/wiki/Mukesh_Ambani) controlled Reliance Industries.

## Reliance's Oil & Gas find

[Andhra Pradesh](http://en.wikipedia.org/wiki/Andhra_Pradesh) near [Vishakhapatnam](http://en.wikipedia.org/wiki/Vishakapatnam). It was the largest discovery of natural gas in world in financial year 2002-2003. On 2 April 2009, Reliance Industries (RIL) commenced natural gas production from its D-6 block in the Krishna-Godavari (KG)

The gas reserve is 7 trillion cubic feet in size. Equivalent to 1.2 billion barrels (165 mil in 2002, Reliance found [natural gas](http://en.wikipedia.org/wiki/Natural_gas) in the [Krishna Godavari basin](http://en.wikipedia.org/wiki/Krishna_Godavari_basin) off the coast of lion tonnes) of [crude oil](http://en.wikipedia.org/wiki/Crude_oil), but only 5 trillion cubic feet are extractable.

On 2008 Oct 8, Anil Ambani's Reliance Natural Resources took Reliance Industries to the [Bombay High Court](http://en.wikipedia.org/wiki/Bombay_High_Court) to uphold a memorandum of understanding that said RIL will supply the natural gas at $2.34 per million [British thermal units](http://en.wikipedia.org/wiki/British_thermal_units) to Anil Ambani.

## Reliance Retail

[Reliance Retail](http://www.ril.com/html/business/business_retail.html) is the retail business wing of the Reliance business. Many brands like Reliance Fresh, Reliance Footprint, Reliance Time Out, Reliance Digital, Reliance Wellness, Reliance Trends, Reliance AutoZone, Reliance Super, Reliance Mart, Reliance iStore, Reliance Home Kitchens, and Reliance Jewel come under the [Reliance Retail](http://en.wikipedia.org/w/index.php?title=Reliance_Retail&action=edit&redlink=1) brand. Reliance saw opportunity in retailing chicken, mutton and other meat products (halal and non-halal) through one of its retail arms called "Delight Non Veg." One of the Delight outlets has been shut down due to protest by anti-animal cruelty activists at Gandhi Nagar, Delhi who want Reliance to close its non-veg food marketing.

##  Environmental record

## Reliance Industry is the world’s largest polyester producer and as a result one of the largest producers of polyester waste in the world. In order to deal with this large amount of waste they had to create a way to recycle the waste. They operate the largest polyester recycling center that uses the polyester waste as a filling and stuffing. They use this process to develop a strong recycling process which won them a reward in the Team Excellence competition.

Reliance Industries backed a conference on environmental awareness in New Delhi in 2006. The conference was run by the Asia Pacific Jurist Association in partnership with the Ministry of Environment & Forests, Govt. of India and the Maharashtra Pollution Control Board. The conference was to help bring about new ideas and articles on various aspects of environmental protection in the region. Maharashtra Pollution Control Board invited various industries complied with the pollution control norms to take active part in the conference and to support as a sponsor. The conference proved effective as a way to promote environmental concern in the area.

## Awards & Recognition

* International Refiner of the Year in 2005 at the 23rd Annual [Hart's World Refining and Fuels Conference](http://en.wikipedia.org/w/index.php?title=Hart%27s_World_Refining_and_Fuels_Conference&action=edit&redlink=1).

###  Awards for managers

* Mukesh D. Ambani received the United States of America-India Business Council (USIBC) leadership award for "Global Vision" 2007 in Washington in July 2007.
* Mukesh D. Ambani was conferred the Asia Society Leadership Award by the [Asia Society](http://en.wikipedia.org/wiki/Asia_Society), Washington, USA, May 2004.
* Mukesh D. Ambani ranked 13th in Asia's Power 25 list of The Most Powerful People in Business published by [Fortune magazine](http://en.wikipedia.org/wiki/Fortune_magazine), August 2004.
* Mukesh D. Ambani is [Economic Times](http://en.wikipedia.org/wiki/The_Economic_Times) Business Leader of the Year.

**Current composition of the Board and**

**Category of Directors are as Follows:**

*"Between my past, the present and the future, there is one common Factor: Relationship and Trust. This is the foundation of our growth."*

 ****

 **Shri Dhirubhai H. Ambani**

 Chairman Reliance Group

 December 28, 1932 - July 6, 2002

 **Board of Directors of Reliance Industries Limited**

 ****

 **Shri Mukesh D Ambani**

Chairman & Managing

 Director

**  **

 **Shri Nikhil R. Meswani Shri Hital R. Meswani Shri .S.Kohli**

Executive Director Executive Director Executive Director

**  **

 **Shri PMS Prasad Shri R. Ravimohan Shri Ramniklal H.**

 Executive Director Executive Director **Ambani**

**  **

 **Shri Mansingh L. Shri Yogendra P. Trivedi Dr. D. V. Kapur**

 **Bhakta**

**  **

**Shri M. P. Modi Prof. Ashok Misra Prof. Dipak C Jain**

**MISSION & VISION**

“Continuously innovate to remain Partners in human progress by Harnessing science & technology in the petrochemicals domain”

 **OUR MISSION**

“Be a globally preferred Business associate with responsible Concern for ecology, society, and stakeholder’s value”.

**VALUES & QUALITY POLICY YOUR VALUES**

“Integrity, Respect for People, Unity of Purpose, Outside-in Focus, Agility and Innovation”.

**QUALITY POLICY**

“Bare committed to meet customers’ requirements through continual improvement of our quality management systems. We shall sustain organizational excellence through visionary leadership and innovative efforts”.

|  |
| --- |
| **Reliance Industries Balance Sheets from 2006 to 2009****in Rs. Cr.** |
|  | Mar '06 | Mar '07 | Mar '08 | Mar '09 |
| 12 months | 12 months | 12 months | 12 months |
| **Sources Of Funds** |
| Total Share Capital | 1,393.17 | 1,393.21 | 1,453.39 | 1,573.53 |
| Equity Share Capital | 1,393.17 | 1,393.21 | 1,453.39 | 1,573.53 |
| Share Application Money | 0.00 | 60.14 | 1,682.40 | 69.25 |
| Preference Share Capital | 0.00 | 0.00 | 0.00 | 0.00 |
| Reserves | 43,760.90 | 59,861.81 | 77,441.55 | 112,945.44 |
| Revaluation Reserves | 4,650.19 | 2,651.97 | 871.26 | 11,784.75 |
| Net worth | 49,804.26 | 63,967.13 | 81,448.60 | 126,372.97 |
| Secured Loans | 7,664.90 | 9,569.12 | 6,600.17 | 10,697.92 |
| Unsecured Loans | 14,200.71 | 18,256.61 | 29,879.51 | 63,206.56 |
| Total Debt | 21,865.61 | 27,825.73 | 36,479.68 | 73,904.48 |
| **Total Liabilities** | 71,669.87 | 91,792.86 | 117,928.28 | 200,277.45 |
| **Application Of Funds** |
| Gross Block | 84,970.13 | 99,532.77 | 104,229.10 | 149,628.70 |
| Less: Accum. Depreciation | 29,253.38 | 35,872.31 | 42,345.47 | 49,285.64 |
| Net Block | 55,716.75 | 63,660.46 | 61,883.63 | 100,343.06 |
| Capital Work in Progress | 6,957.79 | 7,528.13 | 23,005.84 | 69,043.83 |
| Investments | 5,846.18 | 16,251.34 | 20,516.11 | 20,268.18 |
| Inventories | 10,119.82 | 12,136.51 | 14,247.54 | 14,836.72 |
| Sundry Debtors | 4,163.62 | 3,732.42 | 6,227.58 | 4,571.38 |
| Cash and Bank Balance | 239.31 | 308.35 | 217.79 | 500.13 |
| Total Current Assets | 14,522.75 | 16,177.28 | 20,692.91 | 19,908.23 |
| Loans and Advances | 8,266.55 | 12,506.71 | 18,441.20 | 13,375.15 |
| Fixed Deposits | 1,906.85 | 1,527.00 | 5,609.75 | 23,014.71 |
| **Total Current Assets, Loans & Advances** | 24,696.15 | 30,210.99 | 44,743.86 | 56,298.09 |
| Differed Credit | 0.00 | 0.00 | 0.00 | 0.00 |
| Current Liabilities | 17,656.02 | 24,145.19 | 29,228.54 | 42,664.81 |
| Provisions | 3,890.98 | 1,712.87 | 2,992.62 | 3,010.90 |
| **Total Current Liabilities & Provisions** | 21,547.00 | 25,858.06 | 32,221.16 | 45,675.71 |
| Net Current Assets | 3,149.15 | 4,352.93 | 12,522.70 | 10,622.38 |
| Miscellaneous Expenses | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total Assets** | 71,669.87 | 91,792.86 | 117,928.28 | 200,277.45 |
| Contingent Liabilities | 24,897.66 | 46,767.18 | 37,157.61 | 36,432.69 |
| Book Value (Rs) | 324.03 | 439.57 | 542.74 | 727.66 |

|  |
| --- |
| **Reliance Industries Profit & Loss Accounts from 2006 to 2009****in Rs. Cr.** |
|  | Mar '06 | Mar '07 | Mar '08 | Mar '09 |
| 12 months | 12 months | 12 months | 12 months |
| **Income** |
| Sales Turnover | 89,124.46 | 118,353.71 | 139,269.46 | 146,328.07 |
| Excise Duty | 8,246.67 | 6,654.68 | 5,463.68 | 4,369.07 |
| Net Sales | 80,877.79 | 111,699.03 | 133,805.78 | 141,959.00 |
| Other Income | 546.96 | 236.89 | 6,595.66 | 1,264.03 |
| Stock Adjustments | 2,131.19 | 654.60 | -1,867.16 | 427.56 |
| **Total Income** | 83,555.94 | 112,590.52 | 138,534.28 | 143,650.59 |
| **Expenditure** |
| Raw Materials | 59,739.29 | 80,791.65 | 98,832.14 | 109,284.34 |
| Power & Fuel Cost | 1,146.26 | 2,261.69 | 2,052.84 | 3,355.98 |
| Employee Cost | 978.45 | 2,094.09 | 2,119.33 | 2,397.50 |
| Other Manufacturing Exp. | 668.31 | 1,112.17 | 715.19 | 1,162.98 |
| Selling and Admin Exp. | 5,872.33 | 5,478.10 | 5,549.40 | 4,736.60 |
| Miscellaneous Expenses | 300.74 | 321.23 | 412.66 | 562.42 |
| Preoperative Exp. Capitalised | -155.14 | -111.21 | -175.46 | -3,265.65 |
| **Total Expenses** | 68,550.24 | 91,947.72 | 109,506.10 | 118,234.17 |
|  |
| Operating Profit | 3,400.91 | 4,815.15 | 4,847.14 | 5,195.29 |
| PBDIT | 0.00 | 0.00 | 0.00 | 0.00 |
| Interest | 10,711.18 | 14,528.75 | 23,018.14 | 18,446.66 |
| PBDT | 0.88 | 0.51 | 48.10 | 0.00 |
| Depreciation | 10,712.06 | 14,529.26 | 23,066.24 | 18,446.66 |
| Other Written Off | 1,642.72 | 2,585.35 | 3,559.85 | 3,137.34 |
| Profit Before Tax | 9,069.34 | 11,943.40 | 19,458.29 | 15,309.32 |
| Extra-ordinary items | 3,400.91 | 4,815.15 | 4,847.14 | 5,195.29 |
| Tax | 10,711.18 | 14,528.75 | 23,018.14 | 18,446.66 |
| Reported Net Profit | 0.88 | 0.51 | 48.10 | 0.00 |
| Total Value Addition | 8,810.95 | 11,156.07 | 10,673.96 | 8,949.83 |
| Preference Dividend | 0.00 | 0.00 | 0.00 | 0.00 |
| Equity Dividend | 1,393.51 | 1,440.44 | 1,631.24 | 1,897.05 |
| Corporate Dividend Tax | 195.44 | 202.02 | 277.23 | 322.40 |
| **Per share data (annualized**) |
| Shares in issue (lakh) | 13,935.08 | 13,935.08 | 14,536.49 | 15,737.98 |
| Earning Per Share (Rs) | 65.08 | 85.71 | 133.86 | 97.28 |
| Equity Dividend (%) | 100.00 | 110.00 | 130.00 | 130.00 |
| Book Value (Rs) | 324.03 | 439.57 | 542.74 | 727.66 |

 **Financial Position of Reliance Industries Ltd.**

After going through the various ratios, fund flow and cash flow analysis would like to state that:

* The long-term solvency of the company is very satisfactory.
* Immediate solvency position of the company is also quite satisfactory. The company can meet its urgent obligations immediately.
* Credit policies are effective.
* Overall profitability position of the company is quite satisfactory.
* Dividend payout ratio is satisfactory. Dividend paid in all years to its shareholders.
* The company is paying promptly to the suppliers.
* The return on capital employed is satisfactory.
* The profitability position of the company is very satisfactory.

###### Data analysis and Interpretation

###### Calculation and Interpretation of Ratios

**1] Current Ratio:**

**Formula:**

#####  Current assets

 **Current ratio = Current liabilities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| Current assets | 24,696.15 | 30,210.99 | 44,743.86 | 56,298.09 |
| Current liabilities | 21,547.00 | 25,858.06 | 32,221.16 | 45,675.71 |
| **Current ratio** | 1.14 | 1.16 | 1.38 | 1.23 |

Comments:

In Reliance Industries Ltd. the current ratio is 1.23:1 in 2008-2009. It means that for one rupee of current liabilities, the current assets are 1.23 rupee is available to the them. In other words the current assets are 1.23 times the current liabilities.

 Almost 4 years current ratio is same but current ratio in 2007-2008 is bit higher, which makes company sounder. The consistency increase in the value of current assets will increase the ability of the company to meets its obligations & therefore from the point of view of creditors the company is less risky.

Thus, the current ratio throws light on the company’s ability to pay its current liabilities out of its current assets. The Reliance Industries Ltd. has a goody current ratio.

**2] Quick Ratio:**

**Formula:**

 **Quick assets**

 **Quick ratio = Quick liabilities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **Quick assets** | 14,576.33 | 18,674.48 | 24,227.75 | 36029.91 |
| Quick liabilities | 21,547.00 | 25,858.06 | 32,221.16 | 45,675.71 |
|  **Liquid ratio** | 0.67 | 0.69 | 0.75 | 0.78 |

Comments:

The liquid or quick ratio indicates the liquid financial position of an enterprise. Almost in all 4 years the liquid ratio is same, which is better for the company to meet the urgency. The liquid ratio of the Reliance Industries Ltd. has increased from 0.67 to 0.78 in 2008-2009 which shows that company follow low liquidity position to achieve high profitability.

This indicates that the dependence on the long-term liabilities & creditors are more & the company is following an aggressive working capital policy.

Liquid ratio of Company is not favorable because the quick assets of the company are less than the quick liabilities. The liquid ratio shows the company’s ability to meet its immediate obligations promptly.

**3] Proprietary Ratio:**

**Formula:**

 **Proprietor’s fund**

# Proprietary ratio = Total assets

#  OR

 **Shareholders fund**

# Proprietary ratio = Fixed assets + current assets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| Proprietary fund | 49,804.26 | 63,967.13 | 81,448.60 | 126,372.97 |
| **Total Assets** | 68,520.72 | 87,439.93 | 105,405.58 | 189,655.07 |
| **Proprietary ratio** | 0.72 | 0.73 | 0.77 | 0.66 |

Comments:

The Proprietary ratio of the company is 0.66 in the year 2008-2009. It means that the for every one rupee of total assets contribution of 66 paisa has come from owners fund & remaining balance 34 paisa is contributed by the outside creditors. This shows that the contribution by owners to total assets is more than the contribution by outside creditors. As the Proprietary ratio is very favorable of the company. The Company’s long-term solvency position is very sound.

**4] Stock Working Capital Ratio:**

**Formula:**

 **Stock**

**Stock working capital ratio = Working Capital**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| Stock | 10,119.82 | 12,136.51 | 14,247.54 | 14,836.72 |
| **Working Capital** | 3149.15 | 4352.93 | 12,522.70 | 10,622.38 |
| **Stock working capital ratio**  | 3.21 | 2.78 | 1.13 | 1.39 |

Comments:

This ratio shows that extend of funds blocked in stock. The amount of stock is decreasing from the year 2005-2006 to 2008-2009. However in the year 2008-2009 it has increased a little to. In the year 2007-2008 the sale is increased which affects decrease in stock that effected in increase in working capital in 2007-2008.

It shows that the solvency position of the company is sound.

**5] Capital Gearing Ratio:**

**Formula:**

 **Preference capital+ secured loan**

######  **Capital gearing ratio =** **Equity capital & reserve & surplus**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| Secured loan | 7,664.90 | 9,569.12 | 6,600.17 | 10,697.92 |
| **Equity capital & reserves & surplus** | 49,804.26 | 63,967.13 | 81,448.60 | 126,372.97 |
| **Capital gearing ratio** | 16% | 15% | 8.2% | 8.5% |

Comments:

Gearing means the process of increasing the equity shareholders return through the use of debt. Capital gearing ratio is a leverage ratio, which indicates the proportion of debt & equity in the financing of assets of a company.

For the last 2 years [i.e.2007-2008 TO 2008-2009] Capital gearing ratio is all most same which indicates, near about 8.5% of the fund covering the secured loan position. But in the year 2005-2006 the Capital-gearing ratio is 16%. It means that during the year 2005-2006 company has borrowed more secured loans for the company’s expansion.

**6] Debt Equity Ratio:**

**Formula:**

 **Total long term debt**

#  Debt equity ratio = Total shareholders fund

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| Long term debt | 21,865.61 | 27,825.73 | 36,479.68 | 73,904.48 |
| **Shareholders fund** | 49,804.26 | 63,967.13 | 81,448.60 | 126,372.97 |
| **Debt Equity Ratio** | 0.44 | 0.44 | 0.45 | 0.59 |

Comments:

The debt equity ratio is important tool of financial analysis to appraise the financial structure of the company. It expresses the relation between the external equities & internal equities. This ratio is very important from the point of view of creditors & owners.

 The rate of debt equity ratio is increased from 0.44 to 0.59 during the year 2005-2006 to 2008-2009. This shows that with the increase in debt, the shareholders fund also increased. This shows long-term capital structure of the company is sound. The lower ratio viewed as favorable from long term creditor’s point of view.

**7] Gross Profit Ratio:**

**Formula:**

 **Gross profit**

**Gross profit ratio = Net sales \* 100**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **Gross profit** | 18345.48 | 25,439.43 | 30,086.28 | 25,758.2 |
| **Net sales** | 80,877.79 | 111,699.03 | 133,805.78 | 141,959 |
| **Gross profit Ratio** | 22.7 | 22.7 | 22.4 | 18.14 |

Comments:

The gross profit is the profit made on sale of goods. It is the profit on turnover. In the year 2005-2006 the gross profit ratio is 22.7%. It has decreased to 18.14% in the year 2008-2009 due to increase in sales with corresponding more increase in cost of goods sold.

It is continuously declined from 2005-2006 t0 2008-2009 due to high cost of purchases & overheads. Although the gross profit ratio is declined during the years 2005-2006 to 2008-2009. The net sales and gross profit is continuously increasing from the year 2005-20063 to 2008-2009.

**8] Operating Ratio:**

**Formula:**

 **Operating Profit**

######  **Operating ratio = Net sales \*100**

**Operating profit = COGS+ operating expenses**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **COGS + Operating expenses** | 68,550.24 | 91,947.72 | 109,506.10 | 118,234.17 |
| **Net sales** | 80,877.79 | 111,699.03 | 133,805.78 | 141,959 |
| **Operating ratio** | 84.75% | 82.31% | 81.80% | 83.28% |

Comments:

The operating ratio shows the relationship between costs of activities & net sales. Operating ratio over a period of 4 years when compared that indicate the change in the operational efficiency of the company.

The operating ratio of the company has decreased in 3 year and increase a little in last year. This is due to increase in the cost of goods sold, which in 2005-2006 was 84.75%, in 2006-2007 was 82.31%, in 2007-2008 was 81.80% & in 2008-2009 it is 83.28%. Though the cost has increased in 2006-2007 as compared to 2005-2006, it is reducing continuously over the next two years, indicate downward trend in cost but upward / positive trend in operational performance.

**9) Net Profit Ratio:**

**Formula:**

 **Net Profit After Tax**

 **Net profit ratio = Net sales \* 100**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| NPAT | 9,069.34 | 11,943.40 | 19,458.29 | 15,309.32 |
| **Net sales** | 80,877.79 | 111,699.03 | 133,805.78 | 141,959.00 |
| **Net profit ratio** | 11.21% | 10.69% | 14.54% | 10.78% |

Comments:

The net profit ratio of the company is high in all year but the net profit is increasing order from this ratio of 4 year it has been observe that the from 2005-2006 to 2007-2008 the net profit is increased and it decreased in the year 2008-2009.

Profitability ratio of company shows considerable increase in 3 years and decreased in the last year. Company’s sales have increased in 3 years and decreased in the last year. At the same time company has been successful in controlling the expenses i.e. manufacturing & other expenses.

It is a clear index of cost control, managerial efficiency & sales promotion.

**10] Stock Turnover Ratio:**

**Formula:**

 **Cost Of Goods Sold**

 **Stock Turnover Ratio = Average stock**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **COGS** | 18,90,98 | 21,96,32 | 28,33,02 | 25,72,26 |
| **Average stock** | 5,49,90 | 5,97,58 | 6,73,11 | 6,89,30 |
| **Stock Turnover Ratio** | 3.4 | 3.6 | 4.20 | 3.73 |

Comments:

Stock turnover ratio shows the relationship between the sales & stock it means how stock is being turned over into sales.

The stock turnover ratio is 2001-2002 was 3.4 times which indicate that the stock is being turned into sales 3.4 times during the year. The inventory cycle makes 3.4 rounds during the year. It helps to work out the stock holding period, it means the stock turnover ratio is 3.4 times then the stock holding period is 3.5 months [12/3.4=3.5months]. This indicates that it takes 3.5 months for stock to be sold out after it is produced. For the last 4 years stock turnover ratio is lower than the standard but it is in increasing order. Inurn the year 2001-2002 to 2004-2005 the stock turnover ratio has improved from 3.4 to 3.73 times, it means with lower inventory the company has achieved greater sales. Thus, the stock of the company is moving fast in the market.

**11] Return on Capital Employed:**

**Formula:**

 **Net Profit After Tax**

###### **Return on capital employed = Capital employed \*100**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| NPAT | 9,069.34 | 11,943.40 | 19,458.21 | 15,308.32 |
| **Capital employed** | 71,669.87 | 145,415.73 | 117,928.28 | 200,277.45 |
| **Return on capital employed** | 12.65% | 8.21% | 16.50% | 7.64% |

Comments:

The return on capital employed shows the relationship between profit & investment. Its purpose is to measure the overall profitability from the total funds made available by the owner & lenders.

The return on capital employed of Rs.7.64 indicate that net return of Rs. 7.64 is earned on a capital employed of Rs.100. this amount of Rs. 7.64 is available to take care of interest, tax,& appropriation.

The return on capital employed is show-mixed trend, i.e. it decrease in 2006-2007 , then increase in 2007-2008 and finally decrease in 2008-2209.In 2007-2008 It is highest that is 16.50%. This indicates a very high profitability on each rupee of investment & has a great scope to attract large amount of fresh fund.

**12] Earning Per Share:**

**Formula:**

 **Net Profit After Tax – Preference Dividend**

###### **Earning per share = Number of equity share**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| NPAT | 9,06934 | 11,943,40.00 | 19,458,29.00 | 15,309,32.00 |
| **No.of equity share** | 13,935.08 | 13,935.08 | 14,536.49 | 15,737.98 |
| **Earning per share** | 65.08 | 85.71 | 133.86 | 97.28 |

Comments:

 Earning per share is calculated to find out overall profitability of the company. Earning per share represents the earning of the company whether or not dividends are declared.

The Earning per share is 97.28 means shareholder gets Rs. for each share of Rs. 10/-. In other words the shareholder earned Rs. 97.28 per share.

The net profit after tax of the company is increasing in all years accepts 2008-2009. Therefore the shareholders earning per share is increased continuously from 2005-2006 to 2007-2008 by 65.08-133.86% and decrease in 2008-2009 to 97.28%. This shows it is continuous capital appreciation per unit share for consecutive three years and capital depreciation per unit share in the last year.

The above analysis shows the Earning per share and Dividend per share is increasing rapidly. It is beneficial to the shareholders and prospective investor to invest the money in this company.

**13] Dividend Payout Ratio:**

**Formula:**

##  Dividend per share

###### **Dividend Payout ratio = Earning per share \* 100**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **Dividend per share** | 10.00 | 10.33 | 11.22 | 12.05 |
| Earning per share | 65.08 | 85.71 | 133.86 | 97.28 |
| **Dividend payout ratio** | 15.36% | 12.05% | 8.38% | 12.38% |

Comments:

The company earned profit in all four years. So its declare dividend in all four years. In the year 2005-2006, 2006-2007 and 2008-2009 the Dividend payout ratio is 15.36, 12.05 and 12.38 respectively. In the year 2007-2008 the company has declared the dividend 8.38 because the company has not earned more profit in the year 2001-2002 hence the company has not declared more dividends in the year 2008-2009. However the company has declared more dividends in the year 2005-2006 as the company has sufficient profit. From this one can say that the company is more conservative for expansion.

**14] Cost of Goods Sold Ratio:**

**Formula:**

 **Cost Of Goods Sold**

**Cost of goods sold Ratio = Net sales \* 100**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **COGS** | 62,532.31 | 86,259.6 | 103,719.5 | 116,200.8 |
| Net sales | 80,773.79 | 111,699.03 | 133,805.78 | 141,959.00 |
| **Cost of goods sold ratio** | 77.31 | 77.22 | 77.51 | 81.85 |

Comments:

This ratio shows the rate of consumption of raw material in the process of production. In the year 2005-2006 the cost of goods sold ratio is 77.31% so the gross profit is 22.69%. It indicates that in 2005-2006, the 77.31% of raw material is consumed in the process of production.

During the 3 years the rate of cost of goods sold ratio is almost same and it increased in last year however the gross profit & sales is increased during the same period.

**15] Cash Ratio:**

**Formula:**

 **Cash + Bank + Marketable securities**

#  Cash ratio = Total current liabilities

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **Cash + Bank + Marketable securities** | 239.31 | 308.31 | 217.79 | 500.13 |
| **Total current liabilities** | 21,547.00 | 25,858.06 | 32,221.16 | 45,675.71 |
| **Cash ratio** | 0.011 | 0.011 | 0.006 | 0.010 |

Comments:

This ratio is called as super quick ratio or absolute liquidity ratio. In the year 2005-2006 the cash ratio is 0.011 & remains same in the year 2006-2007. Then it is decreased to 0.006 in the year 2007-2008 & increased in the year 2008-2009 t0 0.010.

This shows that the company has little cash, bank balance, & marketable securities to meet any contingency.

**16] Return on Proprietors Fund Ratio:**

**Formula:**

 **Net Profit After Tax**

**Return on proprietors fund = Proprietor’s fund \* 100**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **NPAT** | 9,069.34 | 11,943.40 | 19,458.29 | 15,309.32 |
| **Proprietors fund** | 49,804.26 | 63,967.13 | 81,448.60 | 126,372.97 |
| **Return on proprietors fund** | 18.20 | 16.67 | 23.89 | 12.11 |

Comments:

Return on proprietors fund shows the relationship between profits & investments by proprietors in the company. In the year 2005-2006 the return on proprietors fund is 18.20% it means the net return of Rs. 18.20 approximately is earned on the each Rs. 100 of funds contributed by the owners.

During the last 4 years the rate of return on proprietors fund is in fluctuating order. The return on proprietors fund during the year 2005-2006 to 2008-2009 is decreased from 18.20% to 12.11% and it is maximum in the year 2007-2008.

It shows that the company has very large returns available to take care of high dividends, large transfers to reserve etc. & has a great scope to attract large amount of fresh fund from owners.

**17] Operating Profit Ratio:**

Formula:

 **Operating profit**

# Operating profit ratio = Net sales \*100

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **2005-2006** | **2006-2007** | **2007-2008** | **2008 -2009** |
| **NPAT** | 14,458.74 | 20,405.91 | 22,432.52 | 24,152.39 |
| **Proprietors fund** | 80,877.79 | 111,699.03 | 133,805.78 | 141,959 |
| **Return on proprietors fund** | 17.87 | 18.26 | 16.76 | 17.04 |

Comments:

Operating profit ratio shows the relationship between operating profit & the sales. The operating profit is equal to gross profit minus all operating expenses or sales less cost of goods sold and operating expenses.

The operating profit ratio of 17.04% indicates that average operating margin of Rs.17 is earned on sale of Rs. 100. This amount of Rs. 17 is available for meeting non operating expenses. In the other words operating profit ratio 17.04means that 17.04% of net sales remains as operating profit after meeting all operating expenses.

During the last 4 years the operating profit ratio is remains almost same. It indicates that the company has great efficiency in managing all its operations of production, purchase, inventory, selling and distribution and also has control over the direct and indirect costs. Thus, company has a large margin is available to meet non-operating expenses and earn net profit.

## Calculations and Interpretation of Fund Flow Statement

 **Fund flow statement (in Rs. Cr.)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Mar ' 09 | Mar ' 08 | Mar ' 07 | Mar ' 06 |
| Source of funds |
| Issue of shares | 1,393.17 | 1,393.21 | 1,453.39 | 1,573.53 |
| Long term borrowings | 21,865.61 | 27,825.73 | 36,479.68 | 73,904.48 |
| Operating profit | 14,458.74 | 20,405.91 | 2,432.52 | 24,152.39 |
|  | 37,717.52 | 49,624.85 | 60,365.59 | 99,630.4 |
| Application of funds |
| Investment | 5,846.18 | 16,251.34 | 20,516.11 | 20,268.18 |
| Inventories | 10,119.82 | 12,136.51 | 14,247.54 | 14,836.72 |
| Payment dividends | 1393.51 | 1,440.44 | 1,631.24 | 1,897.05 |
| Payment of tax | 1,642.72 | 2,585.35 | 3,559.85 | 3,137.34 |
|  | 19,000.23 | 32,413.64 | 39,954.74 | 40,139.29 |
| Net increase in working capital | 18,717.29 | 17,211.21 | 20,410.85 | 59,491.11 |

**Comments**

* The fund flow analysis shows that the funds increase continuously from the year 2006-2009 due to the maximum long term borrowings and more operating profit .The funds are maximum in the year 2009 because in this year the company borrowed maximum long term loan.
* The application of funds also increases continuously from the tear 2006 to 2009. It was minimum in the year 2006 and maximum in the year 2009.
* The net working capital available to the company was maximum in the year 2009 shows the high liquidity position of the firm and it was minimum in the year 2007 shows the low liquidity position of the firm.

##

##  Calculations and Interpretation of Cash Flow Statement

## Cash flow Statement (in Rs. Cr).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Mar ' 09** | **Mar ' 08** | **Mar ' 07** | **Mar ' 06** |
| Profit before tax | 18,433.23 | 23,010.14 | 14,520.47 | 10,704.06 |
| Net cash flow-operating activity | 18,245.86 | 17,426.74 | 16,870.55 | 10,301.58 |
| Net cash used in investing activity | -24,084.20 | -23,955.08 | -18,567.01 | -12,130.88 |
| Net cash used in fin. Activity | 23,732.58 | 8,973.04 | 306.08 | 366.67 |
| Net inc/dec in cash and equivalent | 17,894.24 | 2,444.70 | -1,390.38 | -1,462.63 |
| Cash and equivalent begin of year | 4,282.29 | 1,835.35 | 3,225.73 | 3,608.79 |
| Cash and equivalent end of year | 22,176.53 | 4,280.05 | 1,835.35 | 2,146.16 |

Comments:

* The cash flow statement shows that the net profit before tax increased continuously in the year 2006, 2007 and 2008 but decreased in the year 2009 due to the excessive liquidity.
* The net cash from the operating activities continuously increased from the 2006 to 2009, which shows the sound position of the firm.
* The statement shows that net cash from investing activities is negative in all four years that means the firm is not enough contribute in investing activities.
* The net cash used in financing activities is maximum in the year 2008 and 2009 in comparison to 2006 and 2007, when company contributed fewer amounts in financing activities.
* The cash and cash equivalents of the firm decreased in the year 2006 and 2007, which shows the low liquidity position of the firm in these years. The cash and cash equivalents of the firm increased in the year 2008 and 2009 showing the high liquidity position of the firm.
* The opening cash and cash equivalents are minimum in the year 2008 and maximum in the year 2009. The Closing cash and cash equivalents maximum in the year 2009 and minimum in the year 2007 shows the firm maintain the maximum liquidity position in the year 2009.

 **Findings**

1. The current ratio has shown non fluctuating trend as 1.14, 1.16, 1.38 and 1.23 during 2006, 2007, 2008 and 2009.

2. The quick ratio is also in non fluctuating trend throughout the period 2006 – 09 resulting as 0.67, 0.69, 0.75, 0.78.The Company believes in high profitability and low liquidity position.

3. The proprietary ratio has shown a non fluctuating trend. The proprietary ratio is decreased compared with the last year.

4. The stock working capital ratio decreased from 3.21 to 1.39 in the year 2006 – 09.

5. The capital gearing ratio is decreased form 2006 – 08 (0.16, 0.15 and 0.82) and increased in 2009 to 0.85.

6. The debt-equity ratio increased from 0.44-0.59 in the year 2006-09.

7. The gross profit ratio is in fluctuation manner. It decreased in the current year compared with the previous year from 23.1% to 18.97%.

8. The net profit ratio is also decreased in the current year compared with the previous year from 14.54% to 10.78%.

9. The operating ratio is increased in the current year compared with the previous year from 81.8% to 83.28%.

10. The return on capital employed is increased in the year 2006 and 2008 while it decreased in the year 2007 and 2009.

11. The earning per share is maximum in the year 2007-2008 and minimum in the year 2005-2006.

12. Dividend payout ratio is maximum in the year 2005-2006 and minimum in the 2007-2008.

13. Cost of goods sold shows a non fluctuating pattern in the year 2005-2008 and increased in the year 2008-2009.

14. The cash ratio shows a non fluctuating pattern in the year 2006, 2008 and 2009 but decreased in the year 2008.

15**.** Return on proprietorship fund is maximum in the year 2007-2008 and minimum in the year 2008-2009.

16. The operating profit ratio shows almost similar pattern in all years but it is maximum in the year 2006-2007 and minimum in the year 2007-2008.

17..The net working capital available to the company was maximum in the year 2009 shows the high liquidity position of the firm and it was minimum in the year 2007 shows the low liquidity position of the firm.

 **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.

**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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**APPENDIX**

|  |  |
| --- | --- |
| Balance Sheet of Reliance Industries | **---------- in Rs. Cr. -------** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Mar '05 | Mar '06 | Mar '07 | Mar '08 | Mar '09 |
| http://img1.moneycontrol.com/images/blank.gif |
|  | 12 mths | 12 mths | 12 mths | 12 mths | 12 mths |
| http://img1.moneycontrol.com/images/blank.gif |
| Sources Of Funds |  |  |  |  |
| Total Share Capital | 1,393.09 | 1,393.17 | 1,393.21 | 1,453.39 | 1,573.53 |
| Equity Share Capital | 1,393.09 | 1,393.17 | 1,393.21 | 1,453.39 | 1,573.53 |
| Share Application Money | 0.00 | 0.00 | 60.14 | 1,682.40 | 69.25 |
| Preference Share Capital | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Reserves | 36,280.35 | 43,760.90 | 59,861.81 | 77,441.55 | 112,945.44 |
| Revaluation Reserves | 2,729.88 | 4,650.19 | 2,651.97 | 871.26 | 11,784.75 |
| Networth | 40,403.32 | 49,804.26 | 63,967.13 | 81,448.60 | 126,372.97 |
| Secured Loans | 7,972.90 | 7,664.90 | 9,569.12 | 6,600.17 | 10,697.92 |
| Unsecured Loans | 10,811.69 | 14,200.71 | 18,256.61 | 29,879.51 | 63,206.56 |
| Total Debt | 18,784.59 | 21,865.61 | 27,825.73 | 36,479.68 | 73,904.48 |
| Total Liabilities | 59,187.91 | 71,669.87 | 91,792.86 | 117,928.28 | 200,277.45 |
|  | Mar '05 | Mar '06 | Mar '07 | Mar '08 | Mar '09 |
|  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Application Of Funds |  |  |  |  |
| Gross Block | 55,125.82 | 84,970.13 | 99,532.77 | 104,229.10 | 149,628.70 |
| Less: Accum. Depreciation | 24,872.83 | 29,253.38 | 35,872.31 | 42,345.47 | 49,285.64 |
| Net Block | 30,252.99 | 55,716.75 | 63,660.46 | 61,883.63 | 100,343.06 |
| Capital Work in Progress | 4,829.29 | 6,957.79 | 7,528.13 | 23,005.84 | 69,043.83 |
| Investments | 17,051.46 | 5,846.18 | 16,251.34 | 20,516.11 | 20,268.18 |
| Inventories | 7,412.88 | 10,119.82 | 12,136.51 | 14,247.54 | 14,836.72 |
| Sundry Debtors | 3,927.81 | 4,163.62 | 3,732.42 | 6,227.58 | 4,571.38 |
| Cash and Bank Balance | 384.51 | 239.31 | 308.35 | 217.79 | 500.13 |
| Total Current Assets | 11,725.20 | 14,522.75 | 16,177.28 | 20,692.91 | 19,908.23 |
| Loans and Advances | 13,869.67 | 8,266.55 | 12,506.71 | 18,441.20 | 13,375.15 |
| Fixed Deposits | 3,224.28 | 1,906.85 | 1,527.00 | 5,609.75 | 23,014.71 |
| Total CA, Loans & Advances | 28,819.15 | 24,696.15 | 30,210.99 | 44,743.86 | 56,298.09 |
| Deffered Credit | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Current Liabilities | 17,917.41 | 17,656.02 | 24,145.19 | 29,228.54 | 42,664.81 |
| Provisions | 3,847.57 | 3,890.98 | 1,712.87 | 2,992.62 | 3,010.90 |
| Total CL & Provisions | 21,764.98 | 21,547.00 | 25,858.06 | 32,221.16 | 45,675.71 |
| Net Current Assets | 7,054.17 | 3,149.15 | 4,352.93 | 12,522.70 | 10,622.38 |
| Miscellaneous Expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Assets | 59,187.91 | 71,669.87 | 91,792.86 | 117,928.28 | 200,277.45 |
| http://img1.moneycontrol.com/images/blank.gif |
| Contingent Liabilities | 6,579.47 | 24,897.66 | 46,767.18 | 37,157.61 | 36,432.69 |
| Book Value (Rs) | 270.35 | 324.03 | 439.57 | 542.74 | 727.66 |

|  |  |
| --- | --- |
| Profit & Loss account of Reliance Industries | **------------------- in Rs. Cr. -------------------** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Mar '05 | Mar '06 | Mar '07 | Mar '08 | Mar '09 |
| http://img1.moneycontrol.com/images/blank.gif |
|  | 12 mths | 12 mths | 12 mths | 12 mths | 12 mths |
| http://img1.moneycontrol.com/images/blank.gif |
| Income |  |  |  |  |
| Sales Turnover | 73,164.10 | 89,124.46 | 118,353.71 | 139,269.46 | 146,328.07 |
| Excise Duty | 7,245.27 | 8,246.67 | 6,654.68 | 5,463.68 | 4,369.07 |
| Net Sales | 65,918.83 | 80,877.79 | 111,699.03 | 133,805.78 | 141,959.00 |
| Other Income | 1,573.70 | 546.96 | 236.89 | 6,595.66 | 1,264.03 |
| Stock Adjustments | -524.35 | 2,131.19 | 654.60 | -1,867.16 | 427.56 |
| Total Income | 66,968.18 | 83,555.94 | 112,590.52 | 138,534.28 | 143,650.59 |
| Expenditure |  |  |  |  |
| Raw Materials | 47,418.04 | 59,739.29 | 80,791.65 | 98,832.14 | 109,284.34 |
| Power & Fuel Cost | 907.94 | 1,146.26 | 2,261.69 | 2,052.84 | 3,355.98 |
| Employee Cost | 846.40 | 978.45 | 2,094.09 | 2,119.33 | 2,397.50 |
| Other Manufacturing Expenses | 303.97 | 668.31 | 1,112.17 | 715.19 | 1,162.98 |
| Selling and Admin Expenses | 3,000.27 | 5,872.33 | 5,478.10 | 5,549.40 | 4,736.60 |
| Miscellaneous Expenses | 217.30 | 300.74 | 321.23 | 412.66 | 562.42 |
| Preoperative Exp Capitalised | -9.60 | -155.14 | -111.21 | -175.46 | -3,265.65 |
| Total Expenses | 52,684.32 | 68,550.24 | 91,947.72 | 109,506.10 | 118,234.17 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Mar '05 | Mar '06 | Mar '07 | Mar '08 | Mar '09 |
| http://img1.moneycontrol.com/images/blank.gif |
|  | 12 mths | 12 mths | 12 mths | 12 mths | 12 mths |
| http://img1.moneycontrol.com/images/blank.gif |
| Operating Profit | 12,710.16 | 14,458.74 | 20,405.91 | 22,432.52 | 24,152.39 |
| PBDIT | 14,283.86 | 15,005.70 | 20,642.80 | 29,028.18 | 25,416.42 |
| Interest | 1,486.54 | 893.61 | 1,298.90 | 1,162.90 | 1,774.47 |
| PBDT | 12,797.32 | 14,112.09 | 19,343.90 | 27,865.28 | 23,641.95 |
| Depreciation | 3,784.57 | 3,400.91 | 4,815.15 | 4,847.14 | 5,195.29 |
| Other Written Off | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Profit Before Tax | 9,012.75 | 10,711.18 | 14,528.75 | 23,018.14 | 18,446.66 |
| Extra-ordinary items | -1.31 | 0.88 | 0.51 | 48.10 | 0.00 |
| PBT (Post Extra-ord Items) | 9,011.44 | 10,712.06 | 14,529.26 | 23,066.24 | 18,446.66 |
| Tax | 1,505.00 | 1,642.72 | 2,585.35 | 3,559.85 | 3,137.34 |
| Reported Net Profit | 7,571.68 | 9,069.34 | 11,943.40 | 19,458.29 | 15,309.32 |
| Total Value Addition | 5,266.28 | 8,810.95 | 11,156.07 | 10,673.96 | 8,949.83 |
| Preference Dividend | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Equity Dividend | 1,045.13 | 1,393.51 | 1,440.44 | 1,631.24 | 1,897.05 |
| Corporate Dividend Tax | 146.58 | 195.44 | 202.02 | 277.23 | 322.40 |
| Per share data (annualised) |  |  |  |  |
| Shares in issue (lakhs) | 13,935.08 | 13,935.08 | 13,935.08 | 14,536.49 | 15,737.98 |
| Earning Per Share (Rs) | 54.34 | 65.08 | 85.71 | 133.86 | 97.28 |
| Equity Dividend (%) | 75.00 | 100.00 | 110.00 | 130.00 | 130.00 |
| Book Value (Rs) | 270.35 | 324.03 | 439.57 | 542.74 | 727.66 |