

**Financial Accounting**  
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**Lecture – 80**

**6.10 Validating the learning - Walkthrough of RIL's Annual Report**

Hi. Now you are familiar with various financial indicators which are used by the stakeholders of the business to know about the financial health of the company. In this video I am going to help you establish further that these indicators are, in fact, actually used by the companies as well as external parties. In order to do that we are going to look at the annual report of Reliance Industries Limited and see if they make use of any of the terms, any of the indicators, that we have discussed.

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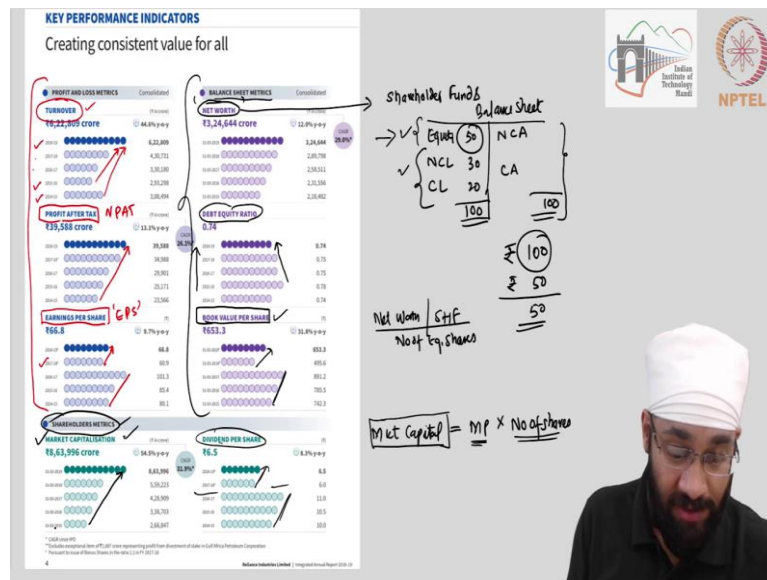
| HIGHLIGHTS FY 2018-19  |  |  |
|--|--|--|
| <b>₹6,22,809 crore</b><br>Consolidated Turnover<br>44.6%<br>y-o-y growth | <b>₹39,588 crore</b><br>Consolidated Profit After Tax<br>13.1%<br>y-o-y growth | <b>₹8,63,996 crore</b><br>Market Capitalisation<br>54.5%<br>y-o-y growth |

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So let us get started. This is the table of content of the annual report of Reliance Industries Limited for the financial year 2018 and 19. We have been using this report in this course extensively. We are, first of all, going to look at key performance indicators. You look at the annual report of any company. You will find these topics addressed in the annual report. First of all, we are going to look at key performance indicators. So, we go to page number 4 and this is what we see. Now, notice that this is the largest company in India and they are showing their key performance indicators which they think, which they deem to be important, to be disclosed to the public.

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The first indicator is called turnover. What is turnover? As we discussed, turnover is the revenue of the company, the sales of the company. So this is the first most important indicator of course. It has been going up: financial year 14-15, 15-16 and so on. This is the financial year 18-19. And these numbers show that the turnover of the company has been going up and it has been going up continuously for the last 3 years. The next indicator is profit after tax. Well, do you know what profit after tax is? Yes, you do. This is net profit after the taxes. Again, this number is going up. Now you know what this indicator means. The next indicator is earnings per share. Do you remember Earnings Per Share, EPS from the profitability indicators, profitability ratios? EPS is being shown here. EPS is not actually in a very good position for this company: they had a big drop in earnings per share in the financial year 17-18, but it has recovered compared to the previous financial year. So, there you go. Earnings per share is something that we are already familiar with. Earnings per share is the earnings available to the equity shareholders, divided by the total number of equity shares issued by the company. These are profit and loss metrics. So, this section shows profit and loss of the company, key indicators which the company thinks are important. Of course, there are other indicators which are shown in the balance sheet as well.

Let us now look at the second set of indicators which have been shown by the company; these are called balance sheet metrics. From the balance sheet we know the company is going to talk about assets and liabilities that they have. The first item is net worth. Now net worth is something that we have not discussed explicitly, but you already know what net worth is. Net

worth, essentially, is the shareholders' funds. Net worth is a very common word which is used in the news or otherwise as well in the business world. In the balance sheet you have equity, you have noncurrent liabilities, and current liabilities; on the other side you have noncurrent assets and current assets. Both sides have a total which is equal, let us say this. Now, what is the net worth of the business? If you pay off all the liabilities that exist in the business then the money that you are left with is the net worth. Now what is it that you have to pay? You have to pay these two external stakeholders: noncurrent liabilities and current liabilities. How are you going to pay for that? You are going to pay for that by selling off your noncurrent assets and converting your current assets into cash. After you sell your assets how much money are you going to get? According to the balance sheet you are going to get 100. And then how much do you need to pay towards noncurrent liabilities and current liabilities. Let us say this is 30 and let us say this is 20. So, total money that needs to be paid to these external stakeholders is 50. So, you are left with 50. What is this 50? This is the value of the equity. This is what belongs to the owners of the business, this is the net worth of the business we know it by the name of shareholders' funds. So, there you go. Net worth is something that you already knew. It has been just reframed as a different word, but now you know that as well.

Next up is debt to equity ratio. Well, you know what debt is and what equity is? Debt to equity ratio is the ratio between this and this number: external liabilities and the internal liabilities. For this company, this ratio has been going down, it has been going down year-on-year.

Then you have book value per share. Again this is something that we have not discussed, but you actually know. It is very simple. I told you that there are some basic principles you need to know, basic ratios indicators that you need to know, and then everything else is just the derivation of that. This too is based upon what we have learned. Book value per share is nothing but the net worth or the shareholders' fund divided by the number of equity shares. There you go, that is the book value per share as against the market value per share. So, this book value per share is going up compared to last year but there have been higher book values in the past. These are the balance sheet metrics which the company has disclosed on page number 4. This is the front of the annual report. These numbers are supposed to be very important for this company. And you already knew four of them directly and two of them you sort of knew which I helped you understand further.

Let us go to the final section on the key performance indicators you have something called shareholders metrics. What are these? The first metric is market capitalization. What is market

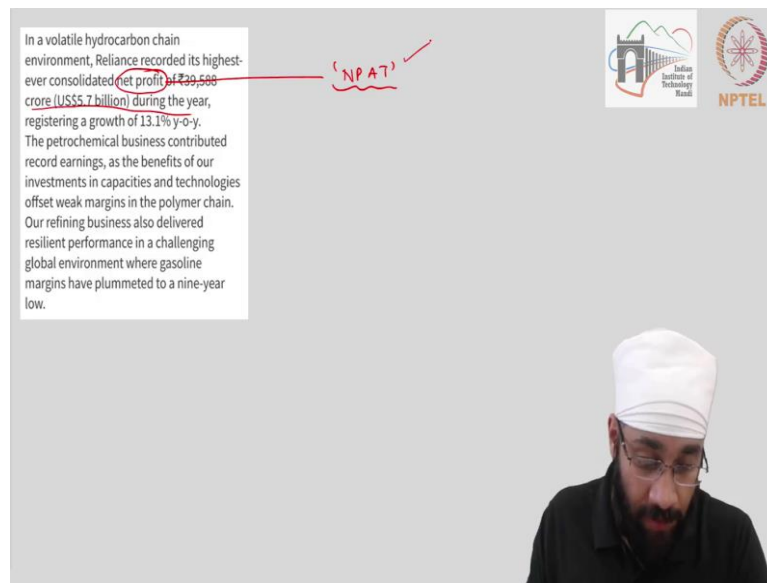
capitalization? Again, this is something which is used in the news articles, in the business parlance very often. The market capital is nothing but the market price per share, which you are already aware of, multiplied by the number of shares which the company has. There you go. You already know what these two things are, multiply these two and you have market capitalization. Now, as against the capital invested in the business as mentioned in the books of accounts, which is here equity, or the money invested, market capitalization is the value of the shares in the market: so these two are contrasting terms. Market capitalization refers to the price of the share in the market multiplied by the number of the shares. So, this market capitalization has gone up significantly in the past few years for this company.

Let us go to the last indicator in the shareholders metrics which is called dividend per share. Well, you already know about dividend per share: this is the dividend declared to equity divided by the number of equity shares in the company. Dividend per share again has experienced a significant drop since the last 2 years, but compared to previous year it has gone up slightly. So, this is the front page, page 4, of the Reliance Industries Limited and you see that of these 6 to 8 indicators, you are already aware of 5 and remaining you knew indirectly. You know all of these things; we have discussed all of these things. Let me further take you to another section in the annual report. We have looked at key performance indicators. Immediately after that you have a letter to the shareholders. This letter here is written by Mr. Mukesh Ambani addressing all the shareholders. Let me just read through some of the selected text, to indicate to you that these ratios, these indicators, these terms that are being used in the financial reports, you can read and understand these terms.



Now, what is this EBITDA? In EBITDA, you are already aware of the first 4 letters here EBIT: Earnings Before Interest and Tax. In addition to that we have added two more letters DA which means depreciation and amortization. Let me use this income statement for example. You have cost of goods sold, employee benefit expenses, depreciation, then you have the finance cost, depreciation, and amortization. I will clarify what this means, then you have tax and then finally, you have net profit after taxes. So, cost of goods sold, let us assume 50, employee benefit expenses, amortization, finance cost, tax, and then you have your net profit which comes out would be 25. So, 25 is the net profit for example. We know what is earnings before interest and tax, earnings before interest and tax would be that you look at only up to this. This is the interest and this is the tax. Do not deduct these from the profit. If you do that then you have EBIT which is equal to 35. These two 5 have to be added back or from 100 you can just deduct 65 (i.e.,  $50 + 10 + 5$ ). So, you are left with 35: this is earnings before interest and tax. If you have to calculate earnings before interest, tax, depreciation, and amortization, all you have to do is not consider this 5 only go up till this point. So, you will have an EBITDA of 30. The reason for using this number is that the company wants to indicate that although EBIT is the total earnings of the company, after which the earnings are distributed to the lenders and to the shareholders, the depreciation and amortization are not paid to anybody. Depreciation is on fixed assets, amortization is on intangible assets like patents, trademarks and copyrights. So, depreciation which is charged on intangible assets is called amortization, so just a different name for depreciation. So, do not worry too much about what amortization is. These two terms, depreciation and amortization, are not paid to anybody. So, this cash is in the business. This is just a noncash expense which the tax authorities allow us to deduct before we calculate the tax amount. Therefore, they are showing EBITDA, because that is the cash that they receive, cash profit that they receive, that they earned during the year. Hence, this number is significant. So, you know now earnings before interest, tax, depreciation, and amortization, what it means.


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In a volatile hydrocarbon chain environment, Reliance recorded its highest-ever consolidated net profit of ₹29,588 crore (US\$5.7 billion) during the year, registering a growth of 13.1% y-o-y. The petrochemical business contributed record earnings, as the benefits of our investments in capacities and technologies offset weak margins in the polymer chain. Our refining business also delivered resilient performance in a challenging global environment where gasoline margins have plummeted to a nine-year low.

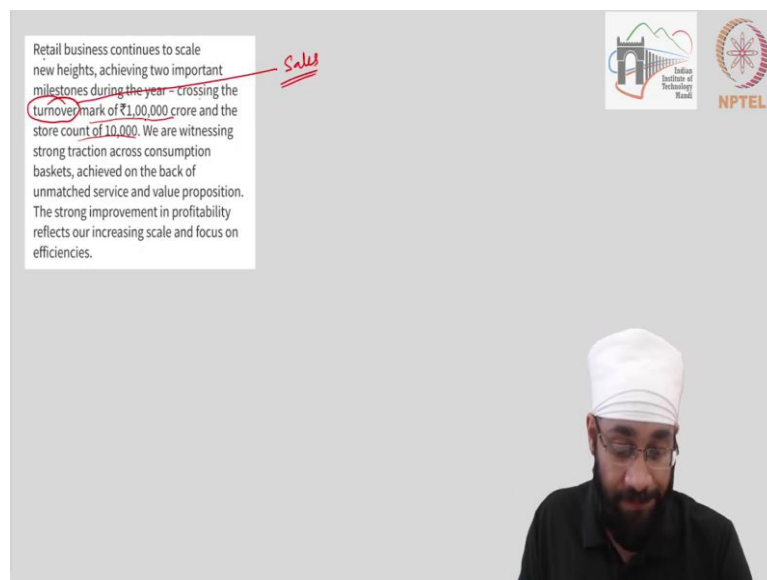
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Let us move forward. Let me look at another paragraph. Let me zoom in this text. It talks about some things and then says net profit of this much. We know net profit means net profit after taxes. So, you know these jargons, these terms are used with a very specific technical meaning. Somebody who has not gone through this course, has not undergone this discussion would generally assume that incomes minus expenses is profit. But the net profit means that you have taken out the finance cost, the taxes, all the rest of expenses as well. Again, you are aware of this term very well.


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Retail business continues to scale new heights, achieving two important milestones during the year – crossing the turnover mark of ₹1,00,000 crore and the store count of 10,000. We are witnessing strong traction across consumption baskets, achieved on the back of unmatched service and value proposition. The strong improvement in profitability reflects our increasing scale and focus on efficiencies.

*Sales*

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Further let me look at another paragraph in detail there and you have this word turnover. What is turnover? Turnover is the sale. We have done lots of turnover ratios and efficiency ratios as well. The word turnover refers to sales of goods and services by a company and here it says Reliance business continues to scale new heights, achieving two important milestones during the year. Number 1 is crossing the turnover mark of 1,00,000 crore and the store count of 10,000. So, whenever the term turnover is used, we know it is referring to the sale. Again, I am emphasizing that you are now familiar with these terms. even the owners of biggest companies in India are using these terms and you can now more easily read these statements and know what it means.

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supply growth in the US (2.2 mbbl/d) and Canada (0.4 mbbl/d). OPEC (Organization of the Petroleum Exporting Countries) supply contracted by 1.1 mbbl/d y-o-y in Q1 2020 as a result of sharp production declines in Venezuela and adherence to the supply restraint deal between OPEC and non-OPEC producers.

The Refining & Marketing segment reported a decrease of 19.8% y-o-y in EBIT - amidst a challenging gross margin environment and particularly weak gasoline demand in the second half of the year. Gasoline margins have been impacted due to weak demand growth, with high pump prices and strong refinery runs leading to rising inventories.

At US\$9.1/bbl, RIL's refining margin remained relatively strong even in a dynamic and volatile market. RIL maintained a significant premium of US\$ 4.5/bbl over the benchmark Singapore complex margin. RIL's superior refining margins are a result of superior product slate, robust risk management and higher secondary unit throughputs.

All units of the gasification complex, including air separation units, material handling systems, gasifier islands, syngas shift and processing facilities, sulphur recovery units, and associated utilities and off sites, have been started safely.

The complex is currently under stabilisation. On the domestic retail front, with a countrywide operational network of 1,271 retail fuel outlets, RIL is covering all the key highways in the country.

**PETROCHEMICALS**

Petrochemicals segment demonstrated the earning power of the new plants commissioned over the last investment cycle, unmatched integration and feedback flexibility. During the year, we commenced cracking of Ethane at Haldipatane. The impressive earnings in the petrochemicals business is a result of Reliance's investments over the last few years. This is reflected in the record production of 31.7 MMT and highest ever earnings delivered by the business this year. The EBIT margins increased by 180 bps this year on the back of strong integrated polyester chain margins.

The strong results were achieved in an environment of declining utilization rates in key product chains with new supply ramp-up. This demonstrates the resilience of the Reliance business model, which is based on deep inter-linkages between refining and petrochemical chains, feedback flexibility and a wide product portfolio.

By leveraging the capabilities in polymer formulations, materials engineering, product design and 3D printing, Reliance is strengthening its new business line for Advanced Materials & Composites to deliver innovative products and solution offerings to the industry.

**OIL & GAS**

FY 2019-20 marked progress on plans to monetise our discovered deepwater resources. Development work for R-Cluster and Satellite Cluster fields has commenced, while field development plans for R1 have been approved by the government. These fields are expected to come on stream from mid-2020. We also progressed on the second phase of development activities at our domestic CBM blocks to enhance production from these fields.

Our ongoing upstream business continues to be impacted by a natural decline in volumes. Domestic production was down 25.4% at 58.9 bcf, while the US shale volume fell 12.4% to 94.5 bcf during FY 2019-20. There has been steady production from the CBM fields in Sahajpur.

**Indian Institute of Technology Bombay**  
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At US\$9.1/bbl, RIL's refining margin remained relatively strong even in a volatile market dynamics.

The petrochemicals business earnings reflect the benefits of Reliance's investments over the last few years.

Development work for R-Cluster and Satellite Cluster fields has commenced while full development plans for R1 have been approved by the government.

There is a following page to this address and there is another paragraph which I am going to zoom in on.



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The Refining & Marketing segment reported a decrease of 19.8% y-o-y in EBIT amidst a challenging price margin environment and particularly weak gasoline demand in the second half of the year. Gasoline margins have been impacted due to weak demand growth, with high pump prices and strong refinery runs leading to rising inventories.

EBIT

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And here it says the refining and marketing segment reported a decrease of 19.8 percent year-on-year which means compared to previous year EBIT well earnings before interest and taxes that you already know. So, I am not going into details of what this paragraph means, what is this marginal environment and all those things, because those words are sector specific, related to petrol petrochemical industry or oil and gas industry. That is not the purpose, the purpose of this discussion is to show you that you are familiar with the financial terms being used.

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**HIGHLIGHTS FY 2018-19**

|  |  |  |
|--|--|--|
| <b>₹6,22,809 crore</b><br>Consolidated Turnover<br>44.6%<br>y-o-y growth | <b>₹39,588 crore</b><br>Consolidated Profit After Tax<br>13.1%<br>y-o-y growth | <b>₹8,63,996 crore</b><br>Market Capitalisation<br>54.5%<br>y-o-y growth |
|--|--|--|

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So, in the annual report you can further to the page on financial highlights. Till now we have looked at page number 4 and page number 6. Now in the financial highlights the company gives more details.

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| FINANCIAL HIGHLIGHTS   |              |           |           |           |           |           |           |           |           |           |
|--|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| RIL Standalone   |              |           |           |           |           |           |           |           |           |           |
|  | Q3 FY2020-21 | FY2020-21 | FY2019-20 | FY2018-19 | FY2017-18 | FY2016-17 | FY2015-16 | FY2014-15 | FY2013-14 | FY2012-13 |
| Value of Sales & Services  | 57,884       | 4,98,796  | 3,21,537  | 2,85,242  | 2,52,242  | 1,48,254  | 4,35,352  | 3,71,219  | 3,95,762  | 2,98,651  |
| Total Income   | 57,883       | 4,98,823  | 3,21,538  | 2,78,776  | 2,58,962  | 1,48,658  | 4,33,238  | 3,78,127  | 3,45,884  | 2,61,769  |
| Earnings Before Depreciation, Finance Cost and Tax Expenses (EBITDA) | 5,796        | 47,376    | 30,362    | 32,295    | 47,269    | 46,223    | 39,823    | 36,765    | 39,821    | 42,279    |
| Depreciation and Amortisation  | 1,527        | 22,556    | 9,386     | 6,840     | 4,596     | 6,480     | 6,789     | 6,843     | 11,384    | 13,689    |
| Profit For the Year  | 5,269        | 34,820    | 20,976    | 25,455    | 42,673    | 40,743    | 33,034    | 29,922    | 28,437    | 28,590    |
| Equity Dividend %  | -            | 40        | 128       | -         | 125       | 100       | 95        | 90        | 85        | 80        |
| Dividend Payout  | 124          | 3,524     | 3,229     | -         | 3,099     | 2,344     | 2,759     | 2,343     | 2,331     | 2,389     |
| Equity Share Capital   | 927          | 4,209     | 4,209     | 3,246     | 3,246     | 3,246     | 3,246     | 3,246     | 3,246     | 3,246     |
| Revenue and Capital  | 57,884       | 4,98,796  | 3,21,538  | 2,85,242  | 2,58,962  | 1,48,658  | 4,33,238  | 3,78,127  | 3,45,884  | 2,61,769  |
| Net Worth  | 46,752       | 1,44,228  | 1,11,224  | 2,05,268  | 2,05,268  | 2,05,268  | 2,05,268  | 2,05,268  | 2,05,268  | 2,05,268  |
| Gross Fixed Assets   | 48,356       | 4,78,293  | 4,52,492  | 4,38,889  | 4,38,889  | 4,38,889  | 4,38,889  | 4,38,889  | 4,38,889  | 4,38,889  |
| Net Fixed Assets   | 45,513       | 4,47,746  | 4,17,129  | 4,17,129  | 4,17,129  | 4,17,129  | 4,17,129  | 4,17,129  | 4,17,129  | 4,17,129  |
| Total Assets   | 1,22,275     | 1,73,746  | 1,47,129  | 1,47,129  | 1,47,129  | 1,47,129  | 1,47,129  | 1,47,129  | 1,47,129  | 1,47,129  |
| Market Capitalisation  | 2,49,538     | 8,69,896  | 5,91,223  | 4,28,929  | 3,84,769  | 2,68,647  | 3,84,769  | 2,68,647  | 2,44,757  | 1,42,949  |
| Number of Employees  | 26,987       | 28,038    | 26,987    | 26,987    | 26,987    | 26,987    | 26,987    | 26,987    | 26,987    | 26,987    |
| Contribution to National Exchequer                                   | 9,774        | 47,338    | 30,362    | 32,295    | 47,269    | 46,223    | 39,823    | 36,765    | 39,821    | 42,279    |

| Key Indicators           |              |           |           |           |           |           |           |           |           |           |
|--------------------------|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                          | Q3 FY2020-21 | FY2020-21 | FY2019-20 | FY2018-19 | FY2017-18 | FY2016-17 | FY2015-16 | FY2014-15 | FY2013-14 | FY2012-13 |
| Earnings Per Share - ₹   | 5.66         | 35.57     | 21.2      | 25.4      | 32.4      | 30.7      | 25.4      | 22.8      | 21.2      | 21.2      |
| Dividend Yield (%)       | -            | 40        | 128       | -         | 125       | 100       | 95        | 90        | 85        | 80        |
| Turnover Per Share - ₹   | 5.25         | 42.47     | 27.5      | 24.3      | 21.4      | 11.4      | 33.4      | 29.9      | 27.5      | 23.9      |
| Book Value Per Share - ₹ | 5.03         | 34.2      | 26.4      | 64.3      | 64.3      | 64.3      | 64.3      | 64.3      | 64.3      | 64.3      |
| Sell-Off Ratio           | 0.42         | 0.21      | 0.21      | 0.42      | 0.42      | 0.42      | 0.42      | 0.42      | 0.42      | 0.42      |
| EBITDA Turnover %        | 18.3         | 18.3      | 18.3      | 18.3      | 18.3      | 18.3      | 18.3      | 18.3      | 18.3      | 18.3      |
| Operating Margin %       | 9.1          | 6.99      | 6.23      | 8.78      | 8.78      | 8.78      | 8.78      | 8.78      | 8.78      | 8.78      |
| ROCE %**                 | 22.7         | 15.5      | 17.1      | 25.2      | 25.4      | 25.4      | 25.4      | 25.4      | 25.4      | 25.4      |
| ROCE %**                 | 28.3         | 28.7      | 25.4      | 27.2      | 27.2      | 27.2      | 27.2      | 27.2      | 27.2      | 27.2      |

In the Integrated Annual Report, 5 Services (S), unless otherwise stated.  
Q3 FY2020-21 (Quarterly) till 31.03.2021.  
\*Adjusted for issue of Bonus Shares in 2017-18 in the ratio of 1:1.  
\*\*Adjusted for OPEX and evaluation.

There are financial highlights of Reliance. Standalone means Reliance alone and not the multiple subsidiary companies in which Reliance has invested; when you look at the results of the whole group you call it consolidated result. I am looking at Reliance's standalone only Reliance company's results not its subsidiaries. So, there are two sections to it, some key numbers here, and then some indicators, some ratios after that.

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|  | US \$ million | FY 2010-11 | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 |          |          |
|--|---------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|----------|----------|
| Value of Sales & Services (Revenue)                        | ✓             | 57,984     | 4,00,986   | 3,15,357   | 2,65,041   | 2,51,241   | 3,40,814   | 4,01,302   | 3,71,119   | 3,39,792   | 2,58,051 | 2,00,400 |
| Total Income   | ✓             | 57,020     | 3,94,323   | 3,13,555   | 2,73,750   | 2,59,062   | 3,49,535   | 4,10,238   | 3,79,117   | 3,45,984   | 2,61,703 | 2,02,860 |
| Earnings Before Depreciation, Finance Cost and Tax Expense | ✓             | 9,786      | 67,676     | 59,961     | 51,965     | 47,168     | 40,323     | 39,813     | 38,785     | 39,811     | 41,178   | 33,041   |
| Depreciation and Amortisation                              | ✓             | 1,527      | 10,558     | 9,580      | 8,465      | 8,590      | 8,488      | 8,789      | 9,465      | 11,394     | 13,608   | 10,497   |
| Profit For the Year  | ✓             | 5,085      | 35,163     | 33,612     | 31,425     | 27,384     | 22,719     | 21,984     | 21,003     | 20,040     | 20,286   | 16,236   |
| Equity Dividend %  | ✓             | -          | 60         | 110        | -          | 105        | 100        | 95         | 80         | 85         | 80       | 70       |
| Dividend Payout  | ✓             | 514        | 3,554      | 3,255      | -          | 3,095      | 2,944      | 2,793      | 2,643      | 2,531      | 2,385    | 2,084    |
| Equity Share Capital                                       | ✓             | 917        | 6,339      | 6,335      | 3,251      | 3,240      | 3,236      | 3,232      | 3,229      | 3,271      | 3,273    | 3,270    |
| Reserves and Surplus                                       | ✓             | 57,694     | 3,98,983   | 3,08,312   | 2,85,062   | 2,50,758   | 2,12,923   | 1,93,842   | 1,76,786   | 1,62,825   | 1,48,267 | 1,33,901 |
| Net Worth = SWP  | ✓             | 49,762     | 3,44,128   | 3,13,114   | 2,83,289   | 2,53,998   | 2,16,159   | 1,97,074   | 1,79,995   | 1,66,096   | 1,51,540 | 1,37,171 |
| Gross Fixed Assets   | ✓             | 68,616     | 4,76,591   | 4,52,492   | 4,30,093   | 3,93,117   | 3,11,815   | 2,64,281   | 2,32,270   | 2,05,493   | 2,21,252 | 2,28,004 |
| Net Fixed Assets   | ✓             | 45,513     | 3,14,745   | 3,00,447   | 2,87,319   | 2,58,448   | 1,90,316   | 1,51,122   | 1,28,864   | 1,21,477   | 1,55,526 | 1,65,399 |
| Total Assets   | ✓             | 1,12,175   | 7,75,745   | 6,17,525   | 5,46,746   | 4,81,674   | 3,97,785   | 3,67,583   | 3,18,511   | 2,95,140   | 2,84,719 | 2,51,006 |
| Market Capitalisation                                      | ✓             | 1,24,936   | 8,63,996   | 5,59,223   | 4,28,909   | 3,38,703   | 2,66,647   | 3,00,405   | 2,49,802   | 2,44,757   | 3,42,984 | 3,51,320 |
| Number of Employees  | ✓             | 28,967     | 29,533     | 24,167     | 24,121     | 24,930     | 23,853     | 23,519     | 23,166     | 22,661     | 23,365   |          |
| Contribution to National Exchequer                         | ✓             | 9,774      | 67,589     | 56,997     | 51,399     | 43,117     | 33,322     | 31,374     | 28,950     | 28,127     | 28,719   | 17,972   |

Dividend = Div Declared / Equity Share Capital  
 Earnings available to Equity Shareholders = Profit For the Year - Dividend Payout  
 DPS = EPS

Let us first look at these numbers. So, what do you have here? Of all this list, I bet you know 90 percent of the items already if not 100. Value of sales and services: well, you know it. Value of sales and services includes the number of units sold, multiplied by the market price, the price at which they are sold which also includes the tax, the GST that is collected by the company. The total income, on the other hand, includes the value of the services minus the GST, the actual income plus the other incomes, the non-operating incomes that the company has. So, this is the total income, you have taken out the GST amount that is why this number is lower than this now. Then you have earnings before depreciation interest and tax. Earlier, Mr. Mukesh Ambani had used EBITDA, this term now they are using it differently. So, all I am saying is do not get bogged down by different fancy terms or acronyms being used. You know this means the same thing: earnings before depreciation, finance cost, and tax expenses, same thing as the EBITDA. So, it is just that the acronyms have been moved here and there. Then you have the amount of depreciation. Profit for the year is a net profit. Equity dividend percentage: this is the percentage dividend which is paid to the equity shareholders, again we know this. Dividend payout is something which we have not discussed. Dividend payout simply means the dividend declared or paid out as a percentage of the earnings which were available to equity shareholders, that is it. So, dividend payout has a specific meaning. You are going to pay out the dividend from where? From the earnings available to equity shareholders. How do you figure out the earnings available to equity shareholders? You have the net profit after tax and you take out from it the dividend to be paid to preference shares and you have the earnings available to equity. Out of this, the board of the company will pay out some part, let

us say, 50 percent of the earnings available to the equity shareholders are being disbursed or distributed as dividend to equity shareholders, that is what is dividend payout ratio. Again, nothing fancy: we already know how to find out the dividend declared and what are the earnings. So, you can just divide those numbers. Again, another variation of this can be dividend per share and you divide it by earnings per share, same number. Basically numerator and denominator both have been divided by number of shares. So, using both the ways you can figure out dividend payout ratios. So, this was one ratio which you did not know. You know what is equity share capital, you know what are reserves and surpluses, net worth is equal to shareholders' fund, we have discussed this earlier in this video.

Gross fixed assets do not include depreciation so it is the cost value or the cost price of the assets. Net fixed assets are equal to gross fixed assets minus the depreciation. Total assets are equal to the total of the balance sheet. Market capitalization is the number of shares multiplied by the market price per share. We have discussed that before. Number of employees and contribution to the exchequer is the tax that you pay in different ways. There you go. Out of the key indicators you did not know only one, that is it. You knew all the rest of the indicators.

(Refer Slide Time: 21:24)

|  | US \$ | FY 2010-19 | FY 2017-18 | FY 2016-17 | FY 2015-16 | FY 2014-15 | FY 2013-14 | FY 2012-13 | FY 2011-12 | FY 2010-11 | FY 2009-10 |
|--|-------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>EPS</b><br>Earnings Per Share - (₹)<br>(excluding Exceptional Item) | 0.80  | 55.5*      | 53.1*      | 96.9       | 84.6       | 70.2       | 68.0       | 64.8       | 61.2       | 62.0       | 49.7       |
| Turnover Per Share - (₹)   | 9.15  | 632.6*     | 497.8*     | 817.2      | 775.3      | 1,053.3    | 1,241.7    | 1,149.5    | 1,037.8    | 790.5      | 612.9      |
| Book Value Per Share - (₹)   | 9.25  | 542.9*     | 496.7*     | 889.0      | 794.4      | 668.0      | 609.8      | 557.5      | 507.3      | 463.2      | 419.5      |
| Debt: Equity Ratio   | 0.401 | 0.371      | 0.371      | 0.421      | 0.451      | 0.451      | 0.401      | 0.411      | 0.441      | 0.461      |            |
| EBITDA<br>Gross Turnover %   | 16.9  | 19.0       | 19.6       | 18.8       | 11.8       | 9.9        | 10.5       | 11.7       | 15.9       | 16.5       |            |
| Net Profit Margin %  | 8.8   | 10.7       | 11.9       | 10.9       | 6.7        | 5.5        | 5.7        | 5.9        | 7.8        | 8.1        |            |
| PAYOUT %   |       | 13.7       | 15.5       | 17.1       | 15.1       | 13.4       | 12.9       | 12.8       | 13.4       | 15.5       | 16.4       |
| ROCE %   |       | 24.9       | 28.7       | 25.4       | 17.2       | 12.7       | 11.5       | 11.2       | 11.6       | 13.2       | 13.9       |

Handwritten annotations on the slide:

- EPS** (circled in red):  $\frac{\text{Earnings}}{\text{No of Shares}}$
- Turnover** (circled in red):  $\frac{\text{Earnings}}{\text{No of Shares}}$
- Debt: Equity Ratio** (circled in red):  $\frac{\text{SHF or Net Worth}}{\text{No of Shares}}$
- ROCE** (circled in red):  $\frac{\text{Earnings}}{\text{SHF + NCL}}$
- ROE** (circled in red):  $\frac{\text{Earnings}}{\text{Equity} \leftarrow \text{SHF}}$
- ROE** (circled in red):  $\frac{\text{Earnings}}{\text{Equity} \leftarrow \text{SHF}}$
- ROE** (circled in red):  $\frac{\text{Earnings}}{\text{Equity} \leftarrow \text{SHF}}$

Now, there was the second section on the ratio, so let us look at that now. Here in this section, you have earnings per share. Do you know what EPS is? Yes, you do. Then you have excluding exceptional items. So, just ignore this. Again, some advanced items may be there. If I can address it quickly, there can be some items which are not regular to the course of the business.

So, you take out those items. You show those items in the income statement: we have not looked at that section yet. So, I am not going into that much detail. Next is turnover per share. Now what is this turnover per share? Not heard of it. Turnover is the sale; you divide it by number of shares and you have turnover per share. Pick any number: current assets per share, debtors per share, cash available per share. So, you could do any of those numbers as long as it makes sense. So, turnover per share, you can figure it out very easily. Book value per share is equal to the shareholder funds divided by the number of shares. We have discussed this earlier as well or this is also called net worth per share. Then we have a debt to equity ratio. You know it very well. You have EBIT divided by gross turnover. Just divide it by the sales number to say what percentage of the total revenue finally translates into earnings before depreciation interest and tax that is what it means. Net profit margin is the net profit ratio, that is it, just slightly different from the name being used. Then you have a return on net worth. So, let me bring it here return on net worth. What is net worth? Net worth is shareholders' funds. So, we are talking about return on shareholders' funds and in the previous videos we spoke about return on investment and the investment was from the point of view of equity shareholders and equity shareholders invest the shareholders' funds. So, these three mean the same. The nomenclature can vary but the components essentially remain the same. Then we have a return on capital employed. We have discussed this capital employed. Let me take it here, capital employed means shareholders' funds plus the noncurrent liabilities. All the long-term funds taken together. You use these as the base to figure out the profits to figure out the percentage margin on this base that is it.

So, you knew all these numbers. So, even in this section in the annual report you are familiar with most of these except for one which I have explained to you. Let us move on to another section which is called management review and management of the company is now doing some discussions on the financials and presenting some analysis. Let us look at the numbers that they are presenting.

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)**  
Financial Performance and Review

**FINANCIAL INFORMATION - CONSOLIDATED AND STANDALONE**

The year was characterized by volatile macro-economic environment. Aiding to an extent were higher oil prices in the first half of the year and increasing geopolitical tensions through the year. Reliance achieved its best year performance in this environment with record contribution from petrochemicals, retail and digital services businesses.

Record operating performance for the year underscored the strength of the petrochemicals business that we have built over the past investment cycle. Furthermore, our consumer businesses continue to scale and bring us with industry leading metrics. The stability of retail and digital services business platforms has created unprecedented value for all stakeholders.

At Reliance, we continue to maintain strong balance sheet with investment grade ratings. Our suite of energy, telecom, operations and growth oriented consumer businesses will help deliver superior and stable returns over the long term.

**REVENUE**  
Reliance achieved consolidated revenue of ₹22,809 crore (US\$ 3.1 billion), an increase of 64.4% as compared to ₹13,922 crore in the previous year. Increase in revenue was primarily an account of revenue increase with stabilisation of prices of chemicals and oil price related increase in realisations of new selling and business products. The higher volumes in petrochemicals business are an outcome of full year operation of new petrochemical facilities. Reliance consolidated revenue was also boosted by robust growth in retail and digital services business, which recorded an increase of 67% and 64% in revenue, respectively as compared to the previous year.

**PROFIT**  
Volume growth in petrochemicals and rapidly increasing contribution from consumer businesses led to significant rise in operating profit for the year. Operating Profit before other income and depreciation stood by 39.5% as a y-o-y increase to ₹3,588 crore (US\$ 0.5 billion) as compared to ₹2,571 crore in the previous year. Profit before other income and depreciation stood by 13% at ₹3,048 crore (US\$ 0.4 billion) as compared to ₹2,688 crore in the previous year. Reliance's lever growth in profit after tax is mainly due to higher income charge and depreciation due to stabilisation of projects.

| Particulars   | Consolidated |                 | Standalone |                 |
|---|--------------|-----------------|------------|-----------------|
|   | FY 2018-19   |                 | FY 2017-18 |                 |
|   | ₹ in crore   | US\$ in billion | ₹ in crore | US\$ in billion |
| Value of Sales and Services (Revenue)               | 6,22,809     | 90.1            | 4,30,731   | 61.6            |
| PBDIT   | 92,656       | 13.4            | 73,097*    | 10.5            |
| Cash Profit   | 64,478       | 9.3             | 54,947*    | 7.8             |
| Segment EBIT  | 66,222       | 9.6             | 51,299*    | 7.3             |
| Net Profit  | 39,588       | 5.7             | 34,988*    | 5.1             |
| Cash and Marketable Securities                      | 1,33,027     | 19.2            | 78,063     | 11.2            |
| Tangible and Intangible Assets (Excluding Goodwill) | 5,65,840     | 81.8            | 5,85,094   | 84.1            |
| Gross Debt  | 2,87,505     | 41.6            | 2,18,763   | 31.6            |

US\$1 = ₹69.155 (Exchange rate as on 31.03.2019)  
\*Excludes exceptional item of ₹1,087 crore representing profit from divestment of stake in Gulf Africa Petroleum Corporation

Here is how the page looks; we are going to zoom into this section here.

(Refer Slide Time: 24:34)

**FINANCIAL INFORMATION - CONSOLIDATED AND STANDALONE**

| Particulars   | Consolidated |                 | Standalone |                 |
|---|--------------|-----------------|------------|-----------------|
|   | FY 2018-19   |                 | FY 2017-18 |                 |
|   | ₹ in crore   | US\$ in billion | ₹ in crore | US\$ in billion |
| Value of Sales and Services (Revenue)               | 6,22,809     | 90.1            | 4,30,731   | 61.6            |
| PBDIT   | 92,656       | 13.4            | 73,097*    | 10.5            |
| Cash Profit   | 64,478       | 9.3             | 54,947*    | 7.8             |
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| Cash and Marketable Securities                      | 1,33,027     | 19.2            | 78,063     | 11.2            |
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| Gross Debt  | 2,87,505     | 41.6            | 2,18,763   | 31.6            |

US\$1 = ₹69.155 (Exchange rate as on 31.03.2019)  
\*Excludes exceptional item of ₹1,087 crore representing profit from divestment of stake in Gulf Africa Petroleum Corporation

*Handwritten notes:*  
EBIT  
Sales - Expense (Cash)  
EBIT

What are they presenting? They are presenting consolidated and standalone, both. So, are bothered about what is consolidated and standalone. Let us look at only consolidated for now. So, they show sales. We know by now that they use P instead of E: it does not matter earnings or profit before interest, depreciation and tax, it means the same thing. EBDIT can be the same thing. Now, a new thing is cash profit. What is cash profit? Cash profit means that you are going to use sales and you are going to take out from this the expenses. But only cash expenses,

not the expenses which have not been paid. When we talk about cash flow statement, we will discuss how to calculate cash profit. So I will defer this discussion to later when we talk about cash flow statement which is another way of analyzing financial statements.

Then you have segment EBIT. We know what is EBIT. Segment refers to different segments that the company has, business segments that the company has. So, not necessarily a financial term, net profit we know cash in marketable securities we know this is a current asset. Marketable securities refer to the investments of the company which can be sold readily and converted into cash. Then you have tangible and intangible assets. There you go. You know all of these things: you have gross debt, debt refers to the noncurrent liabilities of all the loans taken together. To go along with these there is some commentary which you can read through and they are referring to only these numbers. The interpretation again is a deeper discussion on what they are writing here. Is that correct? Can you question that? And so on. That is something you develop over a period of time. But what you learn in this course is the definition of these technical terms which are being used.

(Refer Slide Time: 26:41)

The slide contains the following text:

**OTHER FINANCIAL HIGHLIGHTS**

**Other Income before exceptional item** was lower at ₹8,635 crore (US\$1.2 billion) as against ₹8,862 crore in the previous year, primarily on account of adverse yield movement.

**Finance Cost** was at ₹16,495 crore (US\$2.4 billion) as against ₹8,052 crore in the previous year. The increase was primarily on account of commencement of digital services business, petrochemical projects at Jamnagar and higher loan balances.

**Depreciation (including depletion and amortisation)** was higher by 25.3% to ₹20,934 crore (US\$3.0 billion) as compared to ₹16,706 crore in the previous year, primarily on account of commencement of wireless service business in Reliance Jio. Higher depreciation also reflected the capitalisation of new projects in the petrochemicals business.

**Basic Earnings Per Share (EPS)** for the year ended March 31, 2019 was at ₹66.8 as against ₹60.9 in previous year.

The Board of Directors of the Company has recommended **dividend of ₹6.5/- per fully paid up equity share of ₹10/- each**, aggregating ₹4,641 crore (US\$671 million), including dividend distribution tax.

Reliance's **fixed assets** (excluding goodwill) stood at ₹5,65,840 crore (US\$81.8 billion) as on March 31, 2019. This includes RIL Standalone's fixed assets of ₹3,14,745 crore and **balance of ₹2,51,095 crore** in its subsidiaries mainly Reliance Jio, Reliance Holding USA and Reliance Retail.

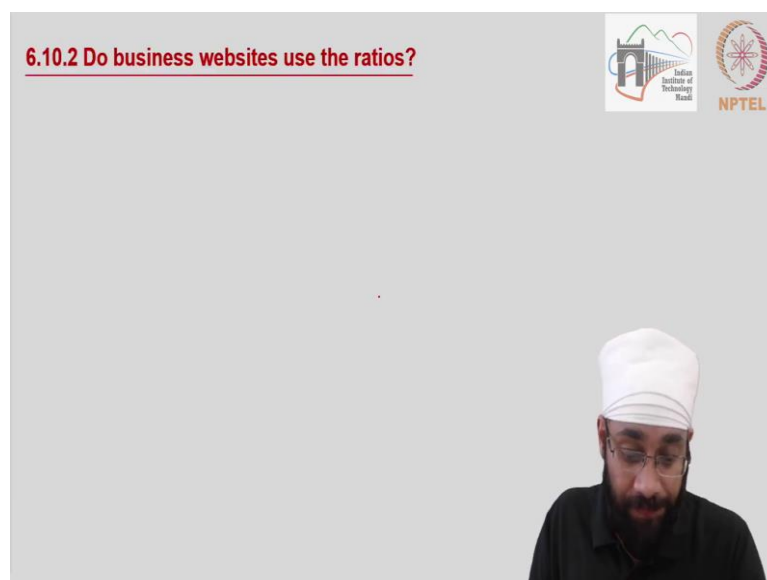
The slide also features logos for Indian Institute of Technology Mumbai and NPTEL in the top right corner.

If we go to the next page, they also talk about in the same analysis discussion that has been presented by the management, they talk about the other incomes and they talk about some exceptional items because these may not be regular incomes of the business, so these are shown as well. Then we have finance costs. We know what finance costs are. These are the interest expenses on the loans taken by the business and it says that 16,495 crore against the previous



year which means the finance cost has gone up. The increase was primarily on account of commencement of digital service business, petrochemical projects at Jamnagar, and higher loan balance: they have taken more loans. They are explaining the reasons for changes in some of these items. They are giving the details of what all was in depreciation: you have EPS and now they are using basic EPS. So, there are two terms: basic EPS and diluted EPS. Again, I do not want you to get confused there, ignore it for the time being. Once you are comfortable with these terms then you can read up more and it is not going to be difficult to distinguish between basic and diluted. But little advanced discussion for this course. Then you have a dividend which was recommended 6.5 rupee per equity share of 10 as well. We know about all of these things: fixed assets are given and this is consolidated. So, they are adding their subsidiaries assets as well.

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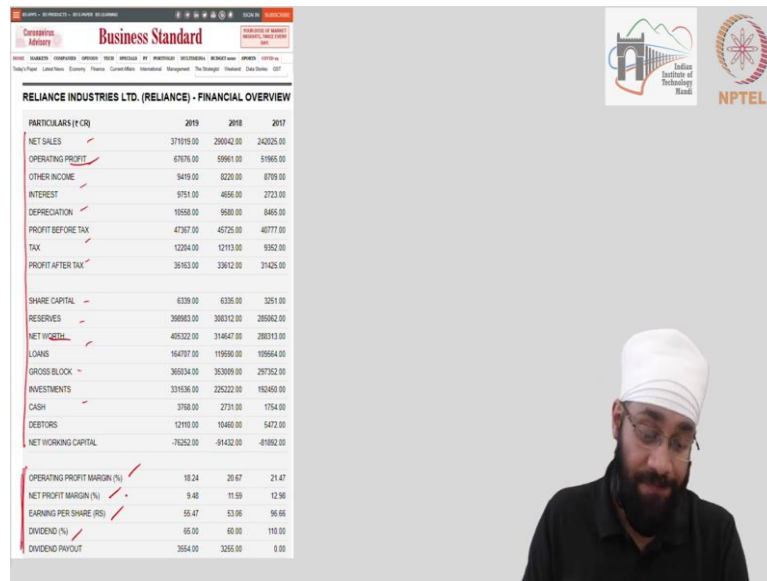


So, that is it we have looked at the annual report and we have looked at 3-4 sections. In all the sections we know 90 percent of the content, of the financial terms being used by the owners of the company, the board, the management team, of the company.

Well, you are all set to read these statements and evaluate and verify your understanding on your own. Let me answer one more question in this video which is that although the annual reports are using these terms, if I go to business websites will I see these terms? Yes, you will.



(Refer Slide Time: 29:00)



| PARTICULARS (IN CR)         | 2019      | 2018      | 2017      |
|-----------------------------|-----------|-----------|-----------|
| NET SALES                   | 37195.00  | 29042.00  | 242025.00 |
| OPERATING PROFIT            | 67676.00  | 59661.00  | 51965.00  |
| OTHER INCOME                | 5493.00   | 8220.00   | 8700.00   |
| INTEREST                    | 9751.00   | 4656.00   | 2723.00   |
| DEPRECIATION                | 10550.00  | 9580.00   | 8465.00   |
| PROFIT BEFORE TAX           | 47367.00  | 45725.00  | 40777.00  |
| TAX                         | 12264.00  | 12113.00  | 9352.00   |
| PROFIT AFTER TAX            | 35103.00  | 33612.00  | 31425.00  |
| SHARE CAPITAL               | 6330.00   | 6335.00   | 3251.00   |
| RESERVES                    | 306063.00 | 308312.00 | 265942.00 |
| NET WORTH                   | 405322.00 | 314647.00 | 288313.00 |
| LOANS                       | 164707.00 | 119956.00 | 109564.00 |
| GROSS BLOCK                 | 360634.00 | 353069.00 | 297352.00 |
| INVESTMENTS                 | 331936.00 | 225222.00 | 192460.00 |
| CASH                        | 3780.00   | 2731.00   | 1754.00   |
| DEBTORS                     | 12910.00  | 10460.00  | 5472.00   |
| NET WORKING CAPITAL         | -76262.00 | -61432.00 | -81892.00 |
| OPERATING PROFIT MARGIN (%) | 18.24     | 20.67     | 21.47     |
| NET PROFIT MARGIN (%)       | 9.48      | 11.59     | 12.96     |
| EARNING PER SHARE (RS)      | 55.47     | 53.06     | 56.66     |
| DIVIDEND (%)                | 65.00     | 60.00     | 110.00    |
| DIVIDEND PAYOUT             | 3554.00   | 3255.00   | 0.00      |

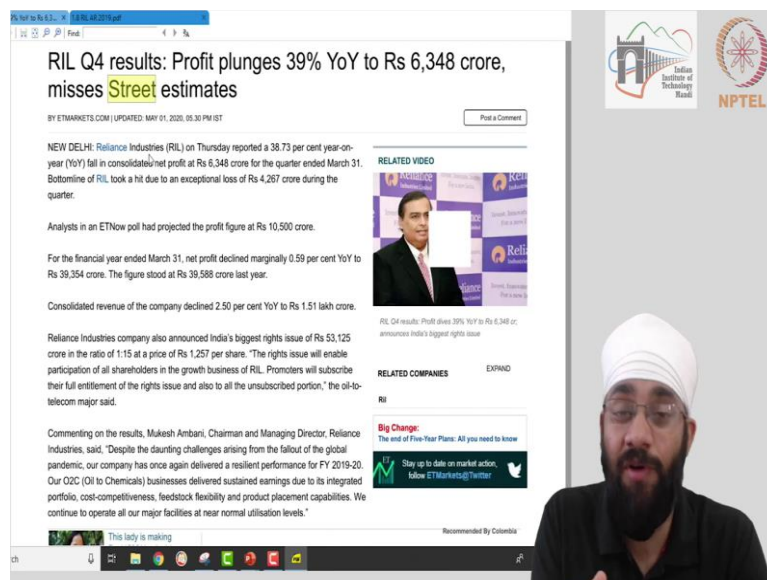
So, I went to [businessstandard.com](https://businessstandard.com) and looked for Reliance Industry Limited's profile and then I got these numbers. You could Google business standard, when you go there you have a search box, you put in Reliance Industries Limited and you will have these details. Any such similar websites will have these items picked up from the final accounts. The income statement and the balance sheet, you are familiar with all these terms: operating profit which is something that we learned during the analysis of the statements. Net worth means shareholders' funds, we know about this. And then finally we have some ratios that they have shown: operating profit margin you know it, net profit margin, earnings per share, dividend percentage, dividend payout, you know all these terms. So, yes, the business websites will also show you similar numbers.

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Now, let us talk about the news articles, do news articles also talk about these numbers? So, I am going to pick up one recent article here.

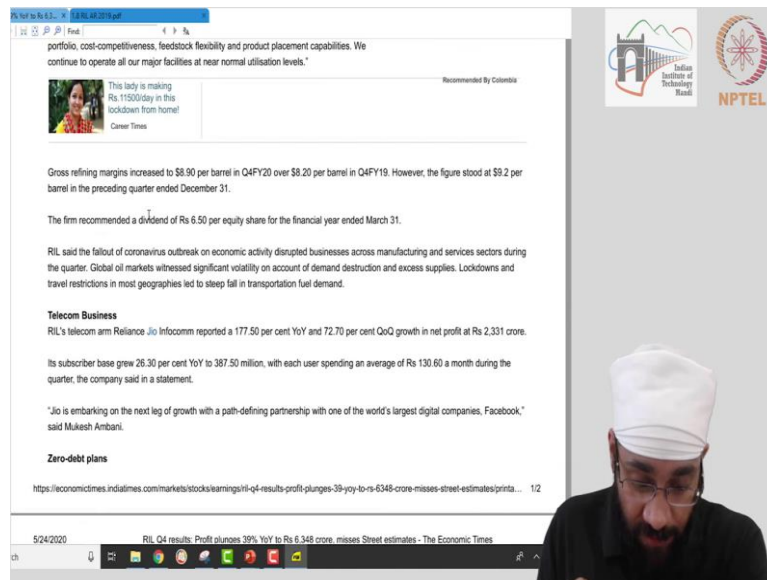
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I have an article from the economic times which says Q4 results: Q4 refers to quarter 4 this is the 4th quarter of the financial year 2019-20, so March 31st 2020 is the quarter 4 ending. The title says profit plunges 39 percent year-on-year to this much amount and misses street estimate; street refers to the stock market, Dalal Street. So, news people will either glorify or use very fancy terms which you will pick up as if you continue to read such articles. But let us

look at what this means. So, Reliance Industries on Thursday reported a year-on-year fall in the consolidated net profit; we know what is consolidated, we know what is net profit for the quarter.

(Refer Slide Time: 31:23)



The screenshot shows a news article from The Economic Times dated 5/24/2020. The article title is "RIL Q4 results: Profit rises 39% YoY to Rs 6,348 crore, misses Street estimates - The Economic Times". The article text includes:

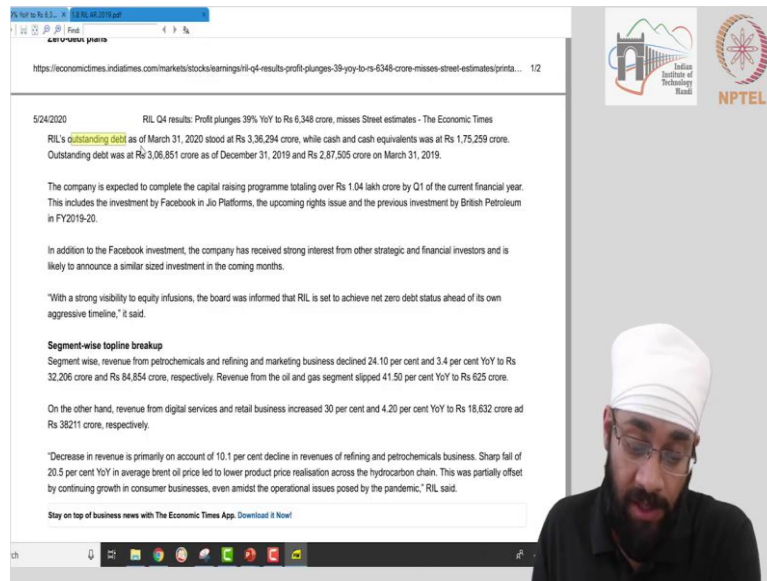
- portfolio, cost-competitiveness, feedstock flexibility and product placement capabilities. We continue to operate all our major facilities at near normal utilisation levels."
- Recommended By Colombia
- Recommended article: "This lady is making Rs. 11500/day in this lockdown from home!" by Career Times
- Gross refining margins increased to \$9.00 per barrel in Q4FY20 over \$8.20 per barrel in Q4FY19. However, the figure stood at \$9.2 per barrel in the preceding quarter ended December 31.
- The firm recommended a dividend of Rs 6.50 per equity share for the financial year ended March 31.
- RIL said the fallout of coronavirus outbreak on economic activity disrupted businesses across manufacturing and services sectors during the quarter. Global oil markets witnessed significant volatility on account of demand destruction and excess supplies. Lockdowns and travel restrictions in most geographies led to steep fall in transportation fuel demand.
- Telecom Business**  
RIL's telecom arm Reliance Jio Infocomm reported a 177.50 per cent YoY and 72.70 per cent QoQ growth in net profit at Rs 2,331 crore. Its subscriber base grew 26.30 per cent YoY to 387.50 million, with each user spending an average of Rs 130.60 a month during the quarter, the company said in a statement.
- "Jio is embarking on the next leg of growth with a path-defining partnership with one of the world's largest digital companies, Facebook," said Mukesh Ambani.
- Zero-debt plans**

The URL at the bottom is [https://economictimes.indiatimes.com/markets/stocks/earnings/ril-q4-results-profit-plunges-39-yoy-to-rs-6348-crore-misses-street-estimates/printa... 1/2](https://economictimes.indiatimes.com/markets/stocks/earnings/ril-q4-results-profit-plunges-39-yoy-to-rs-6348-crore-misses-street-estimates/printa...)

The video overlay shows a man wearing a white chef's hat and glasses, looking down.

Economic times analysis had projected a different profit figure, so that is why they are shocked. Next up they say the financial period ended... , consolidated revenue of the company- we know what is the revenue of the company. Reliance Industry company also announced India's biggest right issue; right issue is issue of shares. But again, an advanced topic: I am not going to touch upon that in this course let us ignore this.

(Refer Slide Time: 31:47)

The image shows a video lecture interface. On the left, a browser window displays a news article from The Economic Times titled "RIL Q4 results: Profit plunges 39% YoY to Rs 6,348 crore, misses Street estimates". The article text includes: "RIL's outstanding debt as of March 31, 2020 stood at Rs 3,36,294 crore, while cash and cash equivalents was at Rs 1,75,259 crore. Outstanding debt was at Rs 3,06,851 crore as of December 31, 2019 and Rs 2,87,505 crore on March 31, 2019." It also mentions a capital raising programme of Rs 1.04 lakh crore and investments from Facebook and British Petroleum. A "Segment-wise topline breakup" section shows declines in petrochemicals and refining, and growth in digital services and retail. On the right, a presenter wearing a white turban and glasses is visible. Logos for IIT Bombay and NPTEL are in the top right corner.

Let us move on to further paragraphs to see if they are using these terms. Gross refining margins- refining refers to their business segment which is refineries, gross margins in the refinery segment, they have improved. We know what gross margins are, we are talking about gross profit here. Next up, the firm recommended a dividend per equity share. We know what a dividend per share is. Let us move forward. Again, they report net profit; we know what is meant by net profit. Subscriber base is not a financial number so we will just move forward. Then we have outstanding debt, outstanding means something which is to be paid, debt means the noncurrent liabilities. Again, these numbers are not something that we do not know. Cash and cash equivalents are the absolute liquid assets cash balance, bank balance, marketable security. So, you know this as well. Then you have segment wise breakdown and they are talking about year-over-year growth in the revenues. Actually, news articles are less technical unless they are reporting a specific issue. So, they will talk about something, they will use some words specific to the industry, specific to the economy, and then make a commentary on net profits, they are not even going to EBIT. So, the bottom line is that you know all of these terms. Now you should be comfortable reading the annual reports of the company which are more technical compared to the news articles in the press.

Let me stop here, I will see you in the next video.