Financial Performance Appraisal of NTPC Limited

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Abstract- Present study is conducted to analyse NTPC financial strength with the use of different ratios. NTPC Limited is the oldest power generating company and playing a well organised competitive role amongst global company. To analyse its financial strength an analysis is made by using different ratios as a tool of investigation. Lastly, we have reached to the conclusion that NTPC Ltd. has a place with force area industry where development period for new ventures is constantly more than 3-5 years, in this way a piece of capital gets hindered in such activities.

Key-Words: **Ratios, Tools, Equipment, Financial leverage**

INTRODUCTION:

Present study is conducted to analyse NTPC financial strength with the use of different ratios. NTPC Ltd is a global giant in power sector. It actually do not have tough competition in India. While NTPC's generates around 45,548 MW its competitors like Reliance Power and Tata Power's generation is around 3500 MW. Clearly the capacity and performance is not comparable. That is why this project does not include comparative financial analysis of NTPC Ltd and its competitors.
In financial analysis, a ratio is used as a benchmark for evaluation the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm.

OBJECTIVE OF THE STUDY

-To evaluate the performance of the company by using ratio as a yardstick to measure the efficiency of the company and analyze various fact of the financial performance of the company.
-To understand the liquidity, profitability and efficiency positions of the company during the study period.

IMPORTANCE OF THE STUDY

The study on the financial statements will help the interested parties to know about the overall financial health of the company. The ratios are helpful to forecast the future of the organization based on the past performance.

METHODOLOGY

Present study is totally based on secondary source of information. In view of the objectives of the study listed above an exploratory research design has been adopted. This is because the goal of the study is clear research will help to understand to concept better.

LIMITATIONS OF THE STUDY

First the study of Ratio Analysis is confined only to the NTPC pvt. ltd. Secondly the study is based on the annual reports of the company for a period of 4 years from 2019 to 2022 the reason for restricting the study to this period is due time constraint. There is no set industry standard for comparison and hence the inference is made on general standards.

DATA ANALYSIS

RATIO ANALYSIS						
Sl. No:			**2022**	**2021**	**2020**	**2019**
1	**PROFITABLITY RATIO-**					
	1.1	GROSS PROFIT RATIO	19.46%	18.53%	18.90%	17.18%
	1.2	NET PROFIT RATIO	13.87%	13.87%	10.35%	13.01%
	1.3	RETURN ON ASSETS	4.54%	4.01%	3.08%	4.03%
	1.4	RETURN ON CAPITAL EMPLOYED	9.15%	8.04%	7.86%	7.45%
	1.5	EARNING PER SHARE	16.62	14.20	10.22	11.88
	1.6	DIVIEND PER SHARE	7.00	6.15	3.15	6.08
	1.7	DIVIDEND PAYOUT RATIO	24.07	0.00	4.89	41.89
2	**LIQUIDITY RATIO-**					
	2.1	CURRENT RATIO	0.95	0.97	1.01	0.79
	2.2	QUICK RATIO	0.80	0.82	0.82	0.65

3	**TURNOVER RATIO-**					
	3.1	FIXED ASSET TURNOVER RATIO	0.32	0.29	0.30	0.31
	3.2	CAPITAL TURNOVER RATIO	8.88	8.73	7.97	7.75
4	**SOLVENCY RATIO**					
	4.1	PROPREITARY RATIO	0.36	0.34	0.34	0.36
	4.2	DEBT-EQUIY RATIO	1.33	1.38	1.41	1.26
	4.3	CAPITAL GEARING RATIO	0.09	0.10	0.12	0.14
	4.4	INTEREST COVERAGE RATIO	3.74	2.99	3.84	2.87

Source: Annual Reports of the company

Gross Profit Ratio:

Gross profit ratio is the ratio of gross profit to net sales expressed as a percentage. It expresses the relationship between gross profit and sales. Gross profit ratio may be indicated to what extent the selling prices of goods per unit may be reduced without incurring losses on operations. It reflects efficiency with which a firm. Gross profit earned should be sufficient to recover all operating expenses and to build up reserves after paying all fixed interest charges and dividends.

From the above we can see from the year 2019 Gross Profit ratio has always been decently maintained by the company with remarkable hight in the year 2022 i.e.19.46 % After 2020 though the gross profit has declined, it is accompanied by huge extension in operations as number of projects undertaken has also increased. This will make company profitable in the near future by such strategy of expansion.

Net profit ratio:

The is net profit expressed in as a percentage of total sales. Net profit is taken before tax and other indirect costs. Essentially it tells you about how the company profile relates to their net sales. Different industries have fundamentally different net profit ratios. The net profit ratio can tell us about the nature of the industry the company is operating in as well as serving to compare past performances of company.

Net profit is the number that really matters, as this is the true indication of your profitability. It will tell you if you are making enough money to make this all worth your time and effort. In the above table net profit for NTPC has been highest in the year 2022 i.e. 13.87%.

Return on total assets ratio:

A ratio that measures a company's earnings before interest and taxes (EBIT) against its total net assets. The ratio is considered an indicator of how effectively a company is using its assets to generate earnings before contractual obligations must be paid. The Return on Total Assets is a useful way to measure how well the company is actually able to make intelligent choices on how to spend its money on new assets. Though the ratio is much better than its other counterparts in the industry. Returns have been highest in the year 2022 i.e. 4.54% and the same have been lowest in the year 2020 i.e. 3.08%. Because company has undertaken many new projects who are still under construction or are not used up to their full capacity.

ROCE:

Return on Capital Employed (ROCE) is used in finance as a measure of the returns that a company is realizing from its capital employed. It is commonly used as a measure for comparing the performance between businesses and for assessing whether a business generates enough returns to pay for its cost of capital. ROCE should always be higher than the rate at which the company borrows, otherwise any increase in borrowing will reduce shareholders' earnings. In case of NTPC Ltd the Return on capital employed have been more than 10% during past 5 years, which is commendable as compared to its counterparts in industry. Returns were highest in the year 2020 i.e. 9.15%.

Earnings per Share(EPS):

Earnings per share serve as an indicator of a company's profitability. Earnings per share are generally considered to be the single most important variable in determining a share's price.

It simply represents the share of net profit after meeting all obligations that is actually left for the shareholders. Thus representing “earnings” per share. With regard to NTPC while it was least in 2020 i.e. Rs 10.22 per share, it was maximum last year i.e. in 2022 Rs 16.62 per share. Growing trend of EPS is definitely good for health of its share value in the market.

Dividends per Share (DPS):

The sum of declared dividends for every ordinary share issued. Dividend per share(DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares. DPS is the part of earning that is actually distributed among the shareholders after retaining a part of earning for the purpose of reinvestment. It is quite evident from the figures that the DPS is continuously rising which will of course positively affect the share value in the market for NTPC Ltd. DPS has been highest in the year 2022, i.e. Rs.7 per share. As compared to the industry the return seems to quite satisfactory from shareholders point of view. We suggest that such continuous improvement must be maintained in the coming financial years

Dividend pay-out Ratio:

The pay-out ratio provides an idea of how well earnings support the dividend payments. More mature companies tend to have a higher pay-out ratio. It represents the percentage of earnings paid to shareholders in dividends. Investors seeking capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. In case of NTPC this ratio has maintained its irregular trend as compared to 2019 by 41.89 to 24.07 in 2022.

Current Ratio:

An indication of a company's ability to meet short-term debt obligations; the higher the ratio, the more liquid the company is. If the current assets of a company are more than twice the current liabilities, then that company is generally considered to have good short-term financial strength. If current liabilities exceed current assets, then the company may have problems meeting its short-term obligations. However, in NTPC financial statement in the initial years i.e. during 2019 to 2022 current ratio has clearly less than the ideal ratio i.e. 2:1. Significant improvement has been shown in preceding years and the ratio has been best in the year 2019 as compared to other four years, as during this it was 1.01. Thus, we can say that considerable improvement is required by the company and same should be continued further because its ratio need to be maintained.

Quick Ratio:

Quick ratio also called Acid-test ratio, establishes a relationship between quick, or liquid, assets and current liabilities. Quick ratio as 1:1 is considered as ideal. An asset is a liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Inventories normally require some time for realizing into cash; their value also has a tendency to fluctuate.

All current assets may not be quickly converted into cash, also their value may differ, That's why we have to consider "quick assets". In NTPC Quick ratio was highest in 2020 and 2021 i.e. 0.82 This simply means that assets forming part of quick assets were far more than the required. Though by 2022 it reduced to 0.80 has been shown and pile of unutilized quick assets has been significantly reduced. The higher the ratio, the better, because a high ratio indicates the business has less money tied up in fixed assets for each unit of currency of sales revenue.

Fixed Asset Turnover Ratio

Fixed-asset turnover is the ratio of sales (on the profit and loss account) to the value of fixed assets (on the balance sheet). It indicates how well the business is using its fixed assets to generate sales. A long-term, tangible asset is held for business use and not expected to be converted to cash in the current or upcoming fiscal year, such as manufacturing equipment, real estate, and furniture. A high fixed asset turnover is preferred since it indicates a better efficiency in fixed assets utilization. A declining ratio may indicate that the business is over-invested in plant, equipment, or other fixed assets. For NTPC Ltd this ratio was highest in the year 2022, i.e.0.32 times. A high fixed asset turnover is preferred since it indicates a better efficiency in fixed assets utilization. It was quite low in the year 2021 i.e That shows that company had more money stuck in fixed assets for each unit of sales revenue.

Capital turnover ratio:

Capital turnover establishes relationship between the net sales and capital employed. The higher the ratios, the more efficiently a company is using its capital. In the case on NTPC Ltd trends show that capital turnover is continuously rising from2019-2022 from 7.75 to 8.88. This definitely shows sign of efficient management of capital by the top management.

Proprietary ratio:

Proprietary ratio refers to a ratio which helps the creditors of the company in seeing that their capital or loans which the creditors have given to the company are safe. Proprietary ratio highlights the financial position of the company and therefore Proprietary ratio can be interpreted as good if it is high because a higher proprietary ratio would imply that company has enough capital to repay its creditors whenever any such demand is made by the creditors. A lower proprietary ratio would imply that company is not in a position to pay all of its creditors and therefore a low proprietary ratio is a cause of concern for the creditors of the company. As NTPC Ltd as per the trend of last 4 years this ratio is continuously declining. It was maximum in the year i.e. in 2022, 0.36. Still company is always in a position to repay its creditors comfortably.

Debt-Equity Ratio:

A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense. Regarding NTPC Ltd this ratio is continuously increasing for last 4 years.

It would have been considered ideal if the company would have maintained ratio nearly70:30.

It was highest during the year i.e. 2020, 1.41. So, the Company has ample scope to introduce more debt in its structure. As a matter of fact it should introduce more debt than it is currently using. Therefore, we can say that the ratios in past 4 years are suitable for NTPC Ltd and it must continue to increase the debt proportion in its structure till it reaches 70:30.

Capital Gearing Ratio:
A general term describing a financial ratio that compares some form of owner's equity (or capital) to borrowed funds. Gearing is a measure of financial leverage, demonstrating the degree to which a firm's activities are funded by owner’s funds versus creditors funds. The higher a company's degree of leverage, the more the company is considered risky. For NTPC Ltd the ratio is continuously declining from the year 2019. This is good as its shows reducing risk. It reveals the suitability of company's capitalization. It was highest in the year 2019 i.e. 0.14 and gradually declined to just 0.09 by 2022.

Interest Coverage Ratio:
A ratio used to determine how easily a company can pay interest on outstanding debt. The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. The interest coverage ratio is considered to be a financial leverage ratio in that it analyzes one aspect of a company's financial viability regarding its debt. For NTPC Ltd data shows that company is not under much of debt expense. It was highest in the year 2020 i.e., 3.84 times and lowest in the year 2022 i.e., 3.74 times

Conclusion:
From the above analysis we can say that gross profit proportions have constantly gone under different changes in the most recent four years. In any case, the proportions are more than the business standard. Gross benefit proportion was most minimal a year ago i.e. 2022, 21.36% this shows overheads cost has not been controlled as required. Such low edge demonstrates that the business can't control its creation cost. Majority of the activities attempted by NTPC are in development stage or their particular lifecycle. This is one reason for its low benefits as of late.

Company's present proportion is declining throughout the years that demonstrates the organization has a gentle dissolvability condition. In instance of NTPC Ltd this profits on aggregate resources proportion is constantly declining which demonstrates that arrival when contrasted with the advantages is declining. NTPC Ltd. has a place with force area industry where development period for new ventures is constantly more than 3-5 years, in this way a piece of capital gets hindered in such activities. The obligation value proportion toward the end of money related year 2019-22 expanded to 1.12 from 0.87 the end of past monetary year. The amount raised through term loans, bonds and foreign currency borrowings was used for capital expenditure and re-financing while amount raised through deposits have been used for working capital purposes.

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