



# Fundamental Analysis of TATA Power

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**Abstract:** Fundamental analysis is a process which helps in understanding the workings of a business at its most basic level i.e., fundamental financial level. Fundamental analysis assists to evaluate the correct price of the shares. The investors can invest their money in the companies by making fundamental analysis. The main purpose of this analysis is to identify the share is overpriced or underpriced. The fundamental analysis has a proper framework. For this research work top approaches like economic, financial, qualitative, quantitative, industry and company analysis has been adapted. The power sector has a bright prospect in the coming year as there is constant movement towards Renewable source of energy. The Indian energy businesses are growing in multifold. One of the major leaders in this sector, Tata power listed in NSE is chosen for this research paper. The company operates through the following business segments like Power Generation, Transmission & Distribution, Renewable Energy (Solar and Wind Power), and Project Management. The analysis is carried out based on secondary data available in the market. The data collected from website of NSE, annual reports and relevant sources. Fundamental of the company is carried out by Economic Industry Company (EIC) approach to determine the intrinsic value.

**Index Terms – Fundamental analysis, EIC approach, Intrinsic Value.**

## I. INTRODUCTION

Fundamental analysis is of two types:

- 1) Qualitative Analysis
- 2) Quantitative Analysis

**Qualitative Analysis:** Qualitative analysis is based on the facts and information of the company which includes the economic parameters, industry conditions and financial performance of the company. It is an analysis of the company's background and internal performance of the company.

**Quantitative Analysis:** Quantitative analysis is based on the financial numbers of the company which is basically the financial ratios. Financial ratios are conventional yet powerful tool of analyzing the financial performance of the company and the intrinsic value of the stock. They are used to make predictions about the company's on-going process and future growth.

For this research we are following Economic, Industry, Company analysis (EIC). It includes first the study of overall economy indicators (Qualitative analysis). Secondly the industry in which the companies are operating and lastly the company analysis which consists of the financial performance of the company (Quantitative analysis).

## II. LITERATURE REVIEW

1. Som, B. K., Goel, H., & Kaur, J. (2020). Ratio Analysis: A Study on Financial Performance of Tata Power. Saudi Arabia Journal Economics and Finance, 3(5), 188-193. Financial performance is a subjective and detailed measure of how well a firm can use assets from its primary mode of business and generate revenues.
2. Jason R. Hancock, Dyna Seng have researched that the knowledge enclosed in monetary statements is helpful for deciding earnings or changes. This information helps to predict future earnings. Generally, there's scope for abnormal returns. There's continuously association between earnings and returns.
3. Dr K Sowmya, J. Mounika Reddy, have researched the basic analysis of the power sector and located that the rate of inflation has been declined which ends up minimum increase on the value of staple and different expenses. It's found that the costs of hand-

picked firm's area unit quite the intrinsic price that isn't benefited for future investment however one might purchase it for brief term on get benefit from speculation.

4. Zoran Ivanovic, Sinisa Bogdan, Suzana and Baresa had over that the basic analysis and historical information area unit base to predict the long run costs of a specific task. It determines the long run costs by analyzing the economy, learning the monetary statements of the corporate and conjointly creating sector analysis.

### III. RESEARCH METHODOLOGY

Tata Power is among the largest players in the field of power distribution, solar EPC and solar rooftops. The company is also engaged in power generation with some 12,808 MW capacities and has plans to expand its renewable portfolio. The company's future growth will largely executed by clean energy initiatives like renewable energy and power distribution, which can also improve its ESG score. Besides venturing into emerging green technologies can also aid the growth.

A complete Tata power's Economic, Industrial and Company analysis will be made and presented and the comment will also be made about each and every analysis separately. Here past 3 years data of qualitative and quantitative aspects are taken in order to make comparison easier. Therefore, fundamental analysis will be made first including both the qualitative and quantitative and followed by the intrinsic value of the selected stock and finally as a part of conclusion assistance to investor to make their investment decision.

### IV. RESEARCH FINDINGS

#### a) Economic Analysis:

The first step is to determine the economic situation in the country. If economic conditions allow for the performance of a particular industry a company in a particular industry group can expect better prospects. Stock prices remain subject to market risk. Therefore, great caution is needed before investing in stocks. The main indicators considered in this study are as follows;

- **Gross Domestic Product of a Country**

Gross domestic product (GDP) is the amount of money or market value of all completed goods and services produced within the country's borders over a period of time. It serves as a complete scorecard for the economic life of a particular country.



- **Inflation Rate**

Inflation rate is the rate of increase in prices of products and services over a given period of time. Inflation is usually a broad measure, such as a sharp rise in prices or an increase in the cost of living in a country.



- **Foreign Direct Investment**

Direct foreign investment is an investment in the form of a controlling ownership of a business in one country by a business based in another country. Often, the term is used to describe a business decision to acquire a large share in a foreign business.



- **Unemployment**

Unemployment is probably the most well-known labor market rate and certainly one of the most cited by the media in many countries. It shows the inability of the economy to create job opportunities for those people who want to work but do not do it.



## FINDINGS OF ECONOMIC ANALYSIS

In economic analysis we can say that the level of inflation has increased the impact on some categories. However, the level of GDP is growing. The flow of FDI has increased over the past two years thanks to the Government programs at various levels that attract immigrants to invest heavily in a country like India. In everything there is a positive spirit of world growth. The growth of the power industry may create more job opportunities in the country.

### b) Industry (Power & Energy) Analysis:

There are three primary segments in the electricity sector: generation, transmission, and distribution. The performance of any industry is relevant to economic conditions and situations of a country. But there are certain stocks which are defensive in nature and do not decline in the recession of the economy. The industrial analysis provides certain clarification to the investor like profitable opportunities, future growth for that industry in a particular period, risk associated with the industry. India is the third-largest power generator and second-largest consumer of electricity in the world.

## SWOT ANALYSIS OF TATA POWER

Strength	Weakness	Opportunity	Threat
<p>Leverage on the "Tata" brand which signifies Trust &amp; reliance.</p> <p>Capable of expansion since it has large reserves and low Debt-Equity Ratio.</p> <p>Access to newer technologies.</p> <p>Tata Power uses various ways of generating power i.e., thermal, hydro, wind, solar energies etc.</p>	<p>Limited Market share due to intense competition.</p> <p>Limited presence in South India which is a remunerative market having IT hubs and no presence in Central India.</p>	<p>Non-conventional sources of power.</p> <p>Expansion into world countries and global expansion.</p>	<p>Fluctuating International prices of coal.</p> <p>Changes in International policies &amp; norms regarding import of coal and oil.</p> <p>Government policies, regulations, and control.</p>

## FINDINGS OF INDUSTRY ANALYSIS

While studying the Indian power and energy industry it is observed that there is excess demand than supply in all three generation, transmission and distribution segment. The Demand for power industry is depend upon the growth of various other industries like household, automobile, engineering, information technology, etc. As the Government has taken intuitive in housing Facilities & infrastructural Facilities to auto industry it is expected the growth of power industry also. The Government initiative in bringing reforms in GST, infrastructure and IT will benefit the power industry.

### c) Company Analysis:

To study the efficiency, profitability of the company one must include quantitative analysis. The income statement and Balance Sheet statements and other notes provide the overall performance of the company. The budget, fund and Cash flow statements also provide insight to the investors for the investment. The following Factors are considered for this research work.

#### 1. Analysis of Earnings and Dividend level

- i. **Return on Equity:** It is calculated by taking a company's after-tax income and dividing by its shareholder's equity (Share capital & Reserves & Surplus). It is the effectiveness to generate profit for the company.

Year	PAT	Share Cap	R & S	SH's Fund	ROE (%)
2021	921.45	319.56	16,559.00	16878.56	5.46
2020	148.12	270.50	13,491.47	13761.97	1.80
2019	1,768.70	270.50	13,919.10	14189.60	12.46

Increasing ROE in the year 2021 indicates that management has deployed its capital properly and there is effective use of shareholders capital.

- ii. **Book Value per Share:** It reflects the amount cash to be generated to run & grow the business of the company. Book Value per Share = (Paid up Capital + Reserves & Surplus)/ No. of Outstanding shares.

Year	Paid-up Cap	R & S	No.of. share	Value per share
2021	319.56	16,559.00	319.56	52.818
2020	270.50	13,491.47	270.50	50.876
2019	270.50	13,919.10	270.50	52.457

This ratio indicates the value of shareholder Equity of Tata Power in the year 2021 is 52.818 of which Face value was Rupee 1. It shows continuous rise in the book value.

- iii. **Earnings per Share:** It indicates the profitability of the company. It is the portion of company's profit allocated to each share in a stock.  $EPS = \text{net income} / \text{average outstanding common shares}$ .

Year	PAT	No.of. Shares	EPS
2021	921.45	319.56	2.88
2020	148.12	270.50	0.55
2019	1,768.70	270.50	6.54

EPS is one of the indicators of the Dividend. In the above table we can observe that the EPS of Tata Power 0.55 in the year 2020. It has become 2.88 in the year 2021. The company has shown consistent growth in the EPS of the company. It shows company healthy performance.

- iv. **Price to Earnings ratio:** The price to earnings ratio is also sometimes known as the price multiple or the earnings multiple.  $PE \text{ ratio} = \text{Share Price} / \text{Earnings per Share}$ .

Year	Market Price	EPS	PE Ratio
2021	160.47	2.88	55.72
2020	46.32	0.55	84.22
2019	76.45	6.54	11.69

PE ratio is the willingness of investors to pay for every rupee earned by company. In 2021 the shareholders are willing to pay rupees 55.72 for a rupee earned by company which signifies the investors' interest over the company.

- v. **Dividend Pay-out Ratio:** This ratio indicates what percentage of company earnings is paid out as a dividend to the investors of the company.

$\text{Dividend Pay Out Ratio} = \text{Dividend} / \text{PAT}$

Year	Dividend	PAT	Pay-Out Ratio (%)
2021	419.24	921.45	46
2020	351.99	148.12	238
2019	351.99	1,768.70	20

Dividend pay-out ratio in the year 2019 was 20% but now in 2021 is 46% which signifies constant and increasing dividend pay-outs.

- vi. **Total Debt/Equity ratio:** It indicates the ratio of long-term liability/borrowing to Shareholder's equity. It helps in calculation of financial leverage.

Year	Borrowing	Equity Capital	Debt-Equity Ratio
2021	354.71	319.56	1.11
2020	316.48	270.50	1.17
2019	294.84	270.50	1.09

Debt-Equity ratio is almost perfectly balanced between all the three years.

## 2. Estimation of Intrinsic Value of 2021

$\text{Intrinsic Value} = \text{EPS} * \text{P/E Ratio}$

Therefore,  $\text{Intrinsic Value} = 2.88 * 55.72 = 160.47$

Here intrinsic value exactly matches the market value hence the share is perfectly valued.

## V. CONCLUSION

The above EIC Analysis has greatly helped to come out with results. The Economic Analysis gave an idea that power sector will play a crucial role in GDP growth and creating employment opportunities. Industrial Analysis assisted in giving the SWOT Analysis and the Government initiative in bringing reforms in GST, infrastructure and IT will benefit the power industry. Finally, the most important financial Analysis gave a complete idea out the stock dividend pay-outs, price of the stock, company's debt-equity ratio and intrinsic value. So, the opinion is that the Tata Power share has a bright future growth and investing in this stock would end up in capital appreciation and even yield good dividends on periodical basic.

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