

# Analysis of Financial Strength of National Thermal Power Corporation Limited (NTPC Ltd.)

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**Abstract:** Business financial strength is of vital concern to business owners, corporate managers, investors and lenders. Efficiency and cost control are keys to success in many companies throughout the world. In general, the financial strength of a company can be measured in three key areas: profitability, liquidity and solvency. Profitability measures a company's ability to make profit or positive net income for a given level of sales or investment. Liquidity measures a company's ability to utilize its resources available to meet its short term commitments. achieve this. The need for liquidity of current assets could not be over emphasized. The efficient management of liquidity is an integrated part of overall finance management and has a bearing on the objective of the consolidation of short-terms solvency position to The study has academic and practical significance. the study focuses on the performance of liquidity of electric power sector of the country in general and financial performance of NTPC Ltd. in particular.

**Keywords:** Financial Strength, Short term liquidity, Ratio, Companies Efficiency, Profitability.

## 1. Introduction

In finance, capital structure refers to the system where a company finances its assets through some combination of equity, debt, or mixed securities. A firm's capital structure is the composition or 'structure' of its liabilities. In reality, capital structure may be highly complex and include dozens of sources. There are many ways to measure the financial strength of a company. The key is identifying the right measurement tools for the company, taking into consideration: the industry, stage of life cycle, time horizon, business objectives, and economic conditions. It is also important to understand your company's financial performance relative to its industry as all companies compete in the marketplace on a local, regional, national or international level. Analysis of financial statements aims at identifying the financial strengths and weaknesses of a firm by properly establishing relationships between the items of the balance sheet and profit & loss account. It helps management to evaluate the performance of the concern and also guides the management to formulate sound financial policy. The term 'financial strength' means the vitality, soundness, liquidity and solvency etc. of a business concern from the financial point of view. The financial strength of a company refers to its ability to

pay expenses and to meet debt obligations when they become due and payable. there are two aspects of the financial strength of any business, the short term and the long term. The analysis into the financial condition with the aid of ratios reveals that:

- Strength and weakness of liquidity-ability to repay debts as they become due;
- Proportions of debt to equity manner of financing and whether there is too little or too much of one compared with the other;
- How assets are distributed along the spectrum from most liquid, such as cash, to meet fixed, such as plant and equipment.

Technique of Managing Short Term Liquidity:- Speedy Cash Collection, Rapid Payment by Customer, Early Conversion of Payment in Cash, Concentration Banking, Lock-Box System, Slowing Disbursement.

### A. Achievement & performance statistics – NTPC

In terms of operations, NTPC has always been considerably above the national average, in operational performance of coal and Gas based stations over the years. NTPC operates from 55 locations in India, one location in Sri Lanka and 2 locations in Bangladesh.

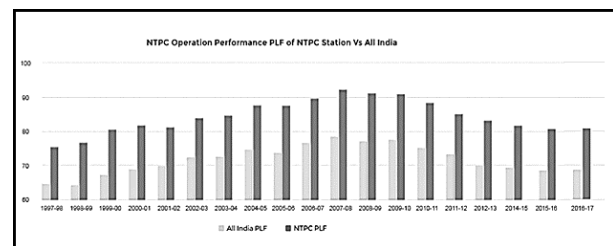


Fig. 1. A. Achievement & performance statistics – NTPC Headquarters: In India, it has six regional headquarter.

## 2. Review of literature

Many researchers have already contributed the different aspects of financial strengths and short term liquidity from different angles and in different environments. The following ones are discussed below. The financial strength of a company was found to have a significant effect of three key areas:

profitability, liquidity and solvency. The research conducted by:

*Sarkar (1987)* in his study examined the different aspects of liquidity management of Durgapur Project Ltd, a Govt. of West Bengal Undertaking, for the period 1977-78 to 1984-85. An interesting feature of that firm was that right from its beginning; it had been running at a loss up to the ultimate year of the study period except in 1982-83. The study assumed that persistent losses of the enterprise had already affected the liquidity and solvency position of the firm. But the study showed that firm maintained satisfactory current ratio and quick ratio throughout the study period. The other liquidity indicators used in this study also conformed to the above mentioned result. However, no proper tradeoff between risk and profitability of the company in connection with its liquidity management was noticed during the period under study.

However, *Reddy (1997)* in his study analyzed the efficiency of liquidity management of a giant public sector enterprise, Bharat Heavy Electrical Ltd. (BHEL) for the period 1987-88 to 1994-95. The relevant data were collected from the published annual reports of the company. The study concluded that the

company managed its liquidity efficiently during the period under study.

*Lairodi and Lazardis (2000)* conducted the research to find out if there is any relationship between the liquidity, profitability and leverage ratios for the sample of 82 food industries listed in the Greece Stock Exchange and they found a positive relationship between cash conversion cycle and return on assets.

According to *Eljelly (2004)*, efficient liquidity management associates planning and controlling current assets and current liabilities in an efficient manner so as to eliminate the risk of non-payment of dues for short term requirements and it also avoids excessive investment in these assets. The connection between the profitability and the liquidity was examined, as determined by current ratio and cash conversion cycle on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis. Similar to the other researchers, *Eljelly (2004)* stressed on the fact that, the cash conversion cycle is the most effective tool to measure the liquidity compared to the current ratio which affects profitability. Besides that, the researcher also thinks that, the

SWOT analysis of NTPC Ltd.

<p>➤ <b>Strengths</b></p>	<ul style="list-style-type: none"> <li>● Employee friendly work culture and personnel policies</li> <li>● Efficient production process of plants</li> <li>● Fully integrated project management system</li> <li>● Many decades of experience in the sector shows its credibility</li> <li>● Backing of Central Government</li> <li>● Efficient &amp; timely completion of projects</li> <li>● The company has kept itself sufficient liquid fund to meet any kind of cash requirement.</li> <li>● Efficient working capital of the plant.</li> <li>● A minimum risk factor.</li> <li>● Company with excellent records and high profit.</li> <li>● An early starter, more than 40 years' experience in power sector.</li> <li>● Highly motivated and dedicated workers and officers.</li> </ul>
<p>➤ <b>Weaknesses</b></p>	<ul style="list-style-type: none"> <li>● Depleting input materials sources.</li> <li>● Govt. intervention can often cause disruptions in operations.</li> <li>● India's Electricity Act determines prices.</li> <li>● Some of the parts of NTPC LTD has become old and need investment for replacement or modifications.</li> </ul>
<p>➤ <b>Opportunities</b></p>	<ul style="list-style-type: none"> <li>● Huge demand and supply gap</li> <li>● Large opportunity in energy consultancy service</li> <li>● New sources of power generations</li> <li>● Upcoming hydro &amp; nuclear sector.</li> <li>● Growth in power sector.</li> <li>● Use opportunities in the consultancy services both abroad as well as in India.</li> </ul>
<p>➤ <b>Threats</b></p>	<ul style="list-style-type: none"> <li>● Rising cost of production</li> <li>● Huge competition from growing private sector firms</li> <li>● New and cleaner sources of power</li> </ul>

size of the firm has also a significant effect on the profitability at the industrial level. The results found were stable and it had a serious effect on the liquidity management in various Saudi Arabic companies. Thus it was clear that, there was a negative relationship between profitability and liquidity for the Saudi companies. Furthermore, the study also disclosed the fact that, there was great variation amongst the industries with respect to the measure for liquidity.

*Bhunia (2010)* has studied the financial performance of pharmaceutical companies in India. Various statistical measures like linear regression and t-test has been used to interpret the results. The author has concluded that the overall ability of both firms is quite satisfactory to meet short term obligations. However Debt equity management has shown more stress on finances through debt, may lead to bankruptcy in long run. Financial stability ratios have shown downward trend for both companies.

*M. Sierpińska and D. Wędzki* emphasize that maintaining financial liquidity in a company essentially depends on the level and the structure of current capital. These authors define current capital as a specific safety buffer in the company which simplifies maintaining financial liquidity.

*Sheela Christina (2011)* carried out the study of financial performance of Wheels India Limited Chennai. The researcher used the financial tools namely ratio analysis, comparative balance sheet and DuPont analysis and also statistical tools such as trend analysis and correlation. Profitability ratio indicated that there was a decrease in the profit level, utilization of fixed assets and working capital in last financial year. Thus the company would take necessary steps to improve sales and profit. Finally, the study revealed that the financial performance was satisfactory.

### 3. Objectives of study

The mandatory objective is the analysis of financial strength in terms of short-term liquidity in NTPC Ltd. i.e. to investigation of financial performance of such company will reveal inside story of such excellent performance in Indian context and set benchmark for Indian electricity industry. With this broad objective the specific objectives of the study are as follows:-

- To measure the liquidity of the NTPC Ltd.
- To interpretate financial performance of the NTPC Ltd. in terms of short term liquidity.
- To suggest appropriate measures for the improvement of the financial performance of NTPC Ltd.

#### A. Sampling design

Sampling Unit: Annual Report of profit and loss account and balance sheet.

Sampling Size: Last 5 years financial statement (2012-13 to 2016-17).

#### B. Scope of study

The scope of the study is identified after and during the study is conducted. The main scope of the study was to put into practical the theoretical aspect of the study into real life work experience.

The present study is mainly analytical and exploratory in nature. The main focus of the study is to examine the financial performance of electric power sector of the country in general and financial performance of NTPC Ltd. in particular. The study covers a period of five years from 2012-13 to 2016-17. The study of short-term liquidity is based on Ratio Analysis, this project is vital to us in a significant way. It does have some importance for the company to. These are as follows:

- Through this project we would study the various methods of liquidity analysis;
- The project will be a learning of planning and financing of liquidity analysis;
- The project would also be an effective tool for credit policies of the company;
- This will show the liquidity position of the company and also how do they maintain particular liquidity position.

### 4. Analysis & interpretation

Table 1  
Statement of profit and loss (2013 to 2017) (Amt. in crores)

<b>INCOME</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
<b>Revenue From Operations [Gross]</b>	<b>64,919.42</b>	<b>72,311.11</b>	<b>73,393.60</b>	<b>70,860.20</b>	<b>78,173.23</b>
Less: Excise/Sevice Tax/Other Levies	526.31	625.09	669.64	729.2	697.99
<b>Revenue From Operations [Net]</b>	<b>64,393.11</b>	<b>71,686.02</b>	<b>72,723.96</b>	<b>70,131.00</b>	<b>77,475.24</b>
Other Operating Revenues	1,280.82	332.91	522.09	375.8	798.2
<b>Total Operating Revenues</b>	<b>65,673.93</b>	<b>72,018.93</b>	<b>73,246.05</b>	<b>70,506.80</b>	<b>78,273.44</b>
Other Income	3,101.58	2,688.89	2,116.32	1,263.70	1,068.86
<b>Total Revenue</b>	<b>68,775.51</b>	<b>74,707.82</b>	<b>75,362.37</b>	<b>71,770.50</b>	<b>79,342.30</b>
<b>EXPENSES</b>					
Cost Of Fuel	41,018.25	45,829.71	48,845.19	43,793.25	47,572.19
Employee Benefit Expenses	3,360.12	3,867.99	3,669.78	3,609.32	4,324.60
Finance Costs	1,924.36	2,406.59	2,743.62	3,230.36	3,597.20
Depreciation & Amortization Expenses	3,396.76	4,142.19	4,911.65	5,425.32	5,920.82
Other Expenses	4,211.22	4,543.85	4,979.31	5,787.39	5,092.38
<b>Total Expenses</b>	<b>53,910.71</b>	<b>60,790.33</b>	<b>65,149.55</b>	<b>61,920.07</b>	<b>66,507.19</b>
<b>Profit/Loss Before Expt., E.O. I &amp; Tax</b>	<b>14,864.80</b>	<b>13,917.49</b>	<b>10,212.82</b>	<b>9,850.43</b>	<b>12,835.11</b>
Exceptional Items	1,684.11	--	--	12.09	-447.21
<b>Profit/Loss Before Tax</b>	<b>16,548.91</b>	<b>13,917.49</b>	<b>10,212.82</b>	<b>9,862.52</b>	<b>12,387.90</b>
<b>Tax Expenses-Continued Operations</b>					
Current Tax	3,839.69	3,230.56	2,278.97	2,096.09	2,777.57
Deferred Tax	278.4	136.31	888.75	226.88	1,287.31
Tax For Earlier Years	-158.85	-436.96	-2,911.93	-2,507.21	-1,062.24
<b>Total Tax Expenses</b>	<b>3,959.24</b>	<b>2,929.91</b>	<b>255.79</b>	<b>-184.24</b>	<b>3,002.64</b>
<b>Profit/Loss After Tax &amp; Before E.O.I</b>	<b>12,589.67</b>	<b>10,987.58</b>	<b>9,957.03</b>	<b>10,046.76</b>	<b>9,385.26</b>
Prior Period Items	29.72	-12.84	333.83	196.15	0
<b>Profit/Loss From Continuing Operations</b>	<b>12,619.39</b>	<b>10,974.74</b>	<b>10,290.86</b>	<b>10,242.91</b>	<b>9,385.26</b>
<b>Profit/Loss For The Period</b>	<b>12,619.39</b>	<b>10,974.74</b>	<b>10,290.86</b>	<b>10,242.91</b>	<b>9,385.26</b>
<b>OTHER ADDITIONAL INFORMATION (Earning Per Share)</b>					
Basic EPS (Rs.)	15	13	12	12.42	11.38
Diluted EPS (Rs.)	15	13	12	12.42	11.38
<b>VALUE OF IMPORTED AND INDIGENIOUS RAW MATERIALS</b>					
<b>STORES, SPARES AND LOOSE TOOLS</b>					
Imported Stores And Spares	4,570.55	6,918.59	8,427.22	5,297.29	--
Indigenous Stores And Spares	37,500.66	40,050.32	41,572.55	39,699.89	--
<b>DIVIDEND AND DIVIDEND %</b>					
Equity Share Dividend	4,741.16	4,741.15	2,061.38	2,762.24	2,152.07
Tax On Dividend	781.87	804.74	417.4	558.25	438.11
Equity Dividend Rate (%)	58	58	25	34	48
Source: Computed And Compiled From Published Data in Moneycontrol.com Of NTPC Ltd					

Table 2  
 Balance Sheet of Last 5 years (2013 to 2017) TOTAL ASSETS (Amt. in crores)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
<b>ASSETS (Non-current assets)</b>					
Property, plant & equipment	62,687.42	71,865.86	78,153.38	91,499.36	99,062.70
Intangible assets	248.68	244.97	262.16	273.89	293.02
Capital work-in-progress	37,109.42	44,886.74	56,463.11	66,205.59	80,522.55
Intangible assets under development	-	1.93	30.38	217.61	214.54
Investments in subsidiary & joint ventures			7,140.67	7,934.72	8,838.88
<b>Financial assets</b>					
Investments	9,137.64	8,120.90	98.48	79.6	113.48
Trade receivables			-	71.18	35.59
Loans	9,633.41	12,776.22	468.46	440.93	530.59
Other financial assets			981.48	1,022.19	1,164.26
Other non-current assets	1,491.19	1,786.77	16,343.85	17,636.80	16,879.15
<b>Total non-current assets</b>	<b>120,307.76</b>	<b>139,683.39</b>	<b>159,941.97</b>	<b>185,381.87</b>	<b>207,654.76</b>
<b>Current assets</b>					
Inventories	4,057.19	5,373.35	7,297.06	7,010.37	6,504.81
<b>Financial assets</b>					
Investments	1,622.46	1,636.96	1,983.34	378.72	-
Trade receivables	5,365.00	5,220.08	7,604.37	7,732.22	8,137.92
Cash and cash equivalent	16,867.70	15,311.37	280.65	1,372.40	157.12
Bank bal. other than cash & cash equ.			12,994.35	3,088.38	2,773.37
Loans	1,745.57	3,117.08	272.63	251.78	236.92
Other financial assets			2,930.38	5,246.03	6,053.32
Other current assets	11,150.78	9,211.95	3,865.51	4,676.55	4,536.44
<b>Total current assets</b>	<b>40,808.70</b>	<b>39,870.79</b>	<b>37,228.29</b>	<b>29,756.45</b>	<b>28,399.90</b>
Regulatory deferral account debit balances			-	-	522.83
<b>TOTAL ASSETS</b>	<b>161,116.46</b>	<b>179,554.18</b>	<b>197,170.26</b>	<b>215,138.32</b>	<b>236,577.49</b>
Source: Computed And Compiled From Published Annual Report Of NTPC Ltd.					

Table 3  
 Balance Sheet of Last 5 years (2013 to 2017) TOTAL EQUITY AND LIABILITIES (Amt. in crores)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
<b>EQUITY AND LIABILITIES</b>					
Equity					
Equity share capital	8,245.46	8,245.46	8,245.46	8,245.46	8,245.46
Other equity	72,142.05	77,569.86	75,584.64	83,048.24	87,985.77
<b>Total equity</b>	<b>80,387.51</b>	<b>85,815.32</b>	<b>83,830.10</b>	<b>91,293.70</b>	<b>96,231.23</b>
<b>Liabilities (Non-current liabilities)</b>					
Borrowings	53,253.66	62,405.75	78,564.51	85,096.95	97,339.28
Trade payables			3.47	8.37	13.17
Other financial liabilities			2,213.72	2,999.27	2,247.13
Provisions	739.92	879.36	1,115.71	436.41	463.15
Deferred tax liabilities (net)	915.3	1,051.61	979.07	1,152.21	1,484.84
Other non-current liabilities	1,969.84	2,512.46	0.01	49.68	17.49
<b>Total non-current liabilities</b>	<b>56,878.72</b>	<b>66,849.18</b>	<b>82,876.49</b>	<b>89,742.89</b>	<b>101,565.06</b>
<b>Current liabilities</b>					
Borrowings	-	-	-	1,299.50	3,000.56
Trade payables	5,132.39	6,633.34	5,953.15	5,311.64	4,876.08
Other financial liabilities	-	-	16,437.32	17,445.02	19,179.40
Other current liabilities	10,469.25	11,343.86	373.45	775.59	1,081.16
Provisions	7,004.54	7,302.60	6,022.04	6,775.69	7,964.92
Current tax liabilities (net)	-	-	-	151.3	75.2
<b>Total current liabilities</b>	<b>22,606.18</b>	<b>25,279.80</b>	<b>28,785.96</b>	<b>31,758.74</b>	<b>36,177.32</b>
Deferred revenue	1,244.05	1,609.88	1,369.97	2,047.34	2,121.14
Regulatory deferral account credit balances	-	-	307.74	295.65	482.74
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>161,116.46</b>	<b>179,554.18</b>	<b>197,170.26</b>	<b>215,138.32</b>	<b>236,577.49</b>

Source: Computed And Compiled From Published Annual Report Of NTPC Ltd.

**A. Analysis**

In order to determine the financial strength of NTPC Ltd. on the front of short term liquidity, we have accumulated data for the last five years and tried to analyze the same. In this way, it'll be easy to understand the nature of change (if any) in the liquidity situation of the organisation. Here are various liquidity ratios for the past five years and examine the findings.

A) Analysis of Short Term Financial Position:

B) Calculations & Interpretation of Current Ratio:

As the table 4, value of various years' of NTPC Ltd. shows that the Current Ratio of all the years is coming down from the standard or the ideal value i.e. 2:1. The Current Ratio of NTPC

Ltd. in the first two years from 2012-2013 to 2013-2014 close to generally accepted norm of 2:1; but gradually year after year it is below standard but so we can say that is keeping a very restrictive policy in maintaining its current assets. As we move ahead, from 2014-2015 till 2016-2017, NTPC Ltd. sees a further decline in current ratio which can be more harmful for the company if it faces sudden payment of current liabilities or faces fall in sales.

*Calculations & Interpretation of Quick Ratio:*

As was seen in the current ratio, the same trend is followed in the liquid ratio too by NTPC Ltd. The company has been very

Table 4 (Amount in Crores)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Total current assets	40,808.70	39,870.79	37,228.29	29,756.45	28,399.90
Total current liabilities	22,606.18	25,279.80	28,785.96	31,758.74	36,177.32
Current Ratio	1.81	1.58	1.29	0.94	0.79

Table 5

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Liquid Assets	36,751.51	34,497.44	29,931.23	22,746.08	21,895.09
Current Liabilities	22,606.18	25,279.80	28,785.96	31,758.74	36,177.32
Quick Ratio	1.63	1.36	1.04	0.72	0.61



Table 6 (Amount in Crores)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Absolute Liquid Assets	16,867.70	15,311.37	13,275.00	4,460.78	2,930.49
Current Liabilities	22,606.18	25,279.80	28,785.96	31,758.74	36,177.32
Absolute Liquidity Ratio	0.75	0.61	0.46	0.14	0.08

Table 7

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Cash and cash equivalent	16,867.70	15,311.37	280.65	1,372.40	157.12
Total current liabilities	22,606.18	25,279.80	28,785.96	31,758.74	36,177.32
Cash Ratio	0.75	0.61	0.01	0.04	0.004

Table 8

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Total Revenue	68,775.51	74,707.82	75,362.37	71,770.50	79,342.30
Inventories	4,057.19	5,373.35	7,297.06	7,010.37	6,504.81
Inventory Turnover Ratio	16.95	13.90	10.33	10.24	12.20

Table 9

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
Net Sales	65,673.93	72,018.93	73,246.05	70,506.80	78,273.44
Avg. Receivables	5,365.00	5,220.08	7,604.37	7,732.22	8,137.92
Debtors Turnover Ratio	12.24	13.80	9.63	9.12	9.62

Table 10

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
Purchases	41,018.25	45,829.71	48,845.19	43,793.25	47,572.19
Trade Payables	5,132.39	6,633.34	5,953.15	5,311.64	4,876.08
Creditors Turnover Ratio	7.99	6.91	8.20	8.24	9.76

aggressive in maintaining liquid assets too. Table 5, shows the position of NTPC Ltd. in case of liquid ratio. It can be seen that the quick ratio of NTPC Ltd. for almost all the early 3 years is much more than the standard value of 1:1. In the years 2012-2013 to 2014-2015, the ratio is slightly above the ideal. In the later years, 2015-2016 and 2016-2017, in this time period, the company was very tight with its working capital policy. It sharply decreased the ratio to 0.72 which is near to the standard ratio. So it can be said that overall, NTPC Ltd. has maintained an aggressive working capital by keeping liquid assets at its low in last 2 years.

*Calculations & Interpretation of Absolute Liquidity Ratio:*

Table 6, indicates the cash position ratio of the National Thermal Power Corporations, the ratio is above the standard, from up to the 2013-14 and in the last years the ratio is less than the norm which represents that the management is suffering of poor cash flow in the management. The table express that the value of current liabilities are increasing, but the absolute cash is continuously decreasing from the last four years of the study period, However the ratio trend declining continuously from all the study period. So it is not good for the firm because it leads to increase the cost of capital.

*Calculations & Interpretation of Cash Ratio:*

The cash ratio in number of times has been exhibited in Table 7, In year 2012-13, it was 0.75 this indicates that for every rupee the company owes creditors in the next 12 months it has 0.75 in cash or 75% of cash is to be paid to the creditors. But that was very high as compared to the ideal cash ratio. But in later years from 2014-15 to 2016-17, there were negligible amount of cash

balance as compared to the current liabilities. The ratio could not touch the standard norm in any of the year under study. The ratio varied from 0.01 times to 0.004 times. If we analyse these five years, we see that the value of industry average of cash ratio has shown a decreasing trend since to 2014-15.

*Calculations & Interpretation of Inventory Turnover Ratio:*

Table 8 throws light on the inventory turnover ratio of NTPC Ltd. It can be seen that the ratio is quite high. It starts with the value of 16.95 in the year 2012-2013 and then decreased for the next three years. In year 2016-2017, the ratio increased to 12.20 from 10.24, this is positive indication, as the higher values of inventory turnover ratio indicate that the company is having efficient inventory control and better competitive capacity.

*Calculations & Interpretation of Accounts Receivable Turnover Ratio:*

The values of Account receivable turnover ratio of NTPC Ltd. are given in Table 9. It shows that the company is quite inefficient in converting its outstanding sales favorable. The company has the highest turnover ratio in the year 2013-14 with a value of 13.80 and lowest turnover ratio in the year 2015-2016 with the value of 9.12. The company is showing lower figures indicate inefficiency in collecting outstanding sales.

*Calculations & Interpretation of Accounts Payables Turnover Ratio:*

The Table 10 shows the values of Account payable turnover ratio of NTPC Ltd. are increasing higher year by year as observed in the study. The year 2012-2013 has the lowest value of 7.99 among all 5 years. The value started increasing and

Table 11 (Amount in Crores)

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
Net Sales	65,673.93	72,018.93	73,246.05	70,506.80	78,273.44
Working Capital	22,835.55	21,463.71	15,814.99	8,808.15	7,525.90
Working Capital Turnover Ratio	2.88	3.36	4.63	8.00	10.40

Table 12

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Cash & Bank Assets	2,930.49	4,460.78	13,275.00	15,311.37	16,867.70
Total Current Assets	50,310.84	52,796.82	52,710.03	48,262.65	47,532.32
Cash Asset Ratio	0.06	0.08	0.25	0.32	0.35

Table 13

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
Net Sales	65,673.93	72,018.93	73,246.05	70,506.80	78,273.44
Current Assets	40,808.70	39,870.79	37,228.29	29,756.45	28,399.90
Current Assets Turnover Ratio	1.61	1.81	1.97	2.37	2.76

Table 14

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
Net Profit After Tax	12,619.39	10,974.74	10,290.86	10,242.91	9,385.26
Net Sales	65,673.93	72,018.93	73,246.05	70,506.80	78,273.44
Net Profit Ratio	19.22	15.24	14.05	14.53	11.99

Table 15

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
Net Sales	65,673.93	72,018.93	73,246.05	70,506.80	78,273.44
Operating Profit / EBIT	16,548.91	13,917.49	10,212.82	9,862.52	12,387.90
Operating Profit Ratio	25.20	19.32	13.94	13.99	15.83

reached 9.76 in the year 2016-17 which shows a very efficient turnover ratio and indicate that the company is paying to the creditors very fast. The value of account payable turnover ratio is improving over years.

#### *Calculations & Interpretation of Working Capital Turnover Ratio:*

Table 11 shows the working capital turnover ratio of NTPC Ltd. The value in almost all the years is good indicating efficient operations by the company. It was observed that in the year 2012-13 working capital ratios was 2.88%. In the year 2016-17 net working capital decrease to Rs.7525.90 crore from Rs. 22835.55 crore, the decrease in working capital is 32.95%. While current assets increased by 94.47% and current liabilities by 145.60%. It shows that management is using long term funds to short term requirements. This together pushed down the net working capital to the present level. The fall in working capital is a clear indication that the company is utilizing its short term resources with efficiency. And it is constantly increasing working capital ratio till 2016-17 up to 10.40% from 2.88%.

#### *Calculations & Interpretation of Cash Asset Ratio:*

Table 12 shows the Cash Asset ratio of NTPC Ltd. In early years the cash asset ratio was very low, but gradually it is increasing year by year. In year 2016-17, this ratio tells us that a little over 30% of the firm's total current assets are in the form of cash and other highly liquid instruments. Here, it is clear that NTPC Ltd. does not only have cash and short-term highly liquid investments as current assets but they also have adequate

inventory and receivables, which is very important for a smooth functioning of any firm.

#### *Calculations & Interpretation of Current assets turnover Ratio:*

Table 13 indicates that the company has been very efficient in converting its current assets into sales as much as possible. The ratio started with 1.61 in the year 2012-2013 and increased in the next 5 years, showing that the company is capable of keeping low levels of current assets in spite of increasing sales figures. Higher the ratio, better is for the company as it shows how many times the current assets are converting into sales.

#### *Calculations & Interpretation of Net Profit Ratio:*

Table 14 shows the net profit ratio of NTPC Ltd. which was 19.22 per cent in 2012-13 came down to 15.24 per cent in 2013-14 registering a sharp continuous decrease. In the year 2014-15 it was further declined to 14.05 percent. Rather in year 2015-16 position of profit improved to 14.53 percent, but again registered sharp decline in year 2016-17. A company with a low net profit margin can earn a high rate of return on investment if it has a higher inventory turnover. It is further observed that the fluctuations in gross profit margin over years are similar to the net profit margin.

#### *Calculations & Interpretation of Operating Profit Ratio:*

Table 15 exhibits the operating profit ratio of NTPC Ltd during the period under study .i.e. the ratio showed a fluctuating trend. It was maximum in year 2012-13 company showed operating profit ratio as highest 25.20 percent. Whereas during these five-year it witnessed a downward trend except in the year



1998-99. Although a high operating profit margin also indicates either higher sales price without corresponding increase in the operating expenses there is decrease in cost of sales without a corresponding decline in sales price.

### 5. Findings of the study

After analysis it can be said that the financial health of NTPC is sound enough and it appears positive in accordance with its balance sheet and profit & loss A/c which are available. Some other finding there is:-

#### A. Findings related to short-term liquidity in NTPC Ltd.

- The current ratio is decreasing all over the study period and it is below the norm standard.
- The current liabilities are increasing whereas the current assets are decreasing during the study period.
- The quick ratio of the said company is decreasing during the study period.
- The quick ratio from last two years is less than the norm; it means there is slow paying of debtors.
- The cash position ratio of said company is above the standard and it is below the norm from last three years.
- The value of absolute cash of the said company is decreasing, which led to influence the ratio is also decreasing.
- The cash ratio of these five years, we see that the value of industry average of cash ratio has shown a decreasing trend since to 2014-15.

#### B. Findings related to NTPC Ltd. Efficiency

- The inventory turnover ratio of NTPC Ltd. shows positive indication, as the higher values of inventory turnover ratio indicate that the company is having efficient inventory control and better competitive capacity.
- The values of Account receivable turnover ratio almost declining, indicates the company is quite inefficient in converting its outstanding sales favorable.
- Account payable turnover ratio of NTPC Ltd. are increasing higher year by year indicate that the company is paying to the creditors very fast.
- The working capital turnover ratio of NTPC Ltd. The value in almost all the years is good indicating efficient operations by the company. It shows that management is using long term funds to short term requirements.
- Cash Asset ratio of NTPC Ltd. In early years the cash asset ratio was very low, but gradually it is increasing year by year. It is clear that NTPC Ltd. does not only have cash and short-term highly liquid investments as current assets but they also have adequate inventory and receivables.
- Current asset turnover ratio indicates that the company

has been very efficient in converting its current assets into sales as much as possible.

#### C. Findings related to profitability

- The gross profit ratio of the company is satisfactory one even it shows fluctuating trend all over the study period.
- The percentage of Net profit ratio and value of net profit shows decreasing trend during the last three years of the study period.
- The Net profit ratio is above the standard; however there is downward trend in their percentage which will affect the profitability of the said company in future.
- The Ratio Net operating profit is above the standard, however it is decreasing from the last three years of the study period.
- The value of operating profit is increasing in the first three years of the study period however in the rest of years it shows decrease. While as the Net sales shows increasing trend all over the study period except the year 2015-16.
- The values of Net profit are fluctuating whereas the shareholders are increasing except 2014-15

### 6. Suggestions

The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. The first task is to select the information relevant to the decision under consideration from the total information contained in the financial statements. In short, "financial performance analysis is the process of selection, relation, and evaluation.

#### A. Suggestions regarding overall improvement of financial performance of NTPC Ltd.

Established in 1975, with an aim to accelerate production of power in the country, NTPC has grown up to become sectorally number one company in true sense. Currently NTPC generates 16 percent of the total electricity produced in India using just 25 percent of its gross installed capacity. NTPC has now the vision of becoming a company with capacities towering up to 128000 MW by the year 2032. Following are some suggestions for the company towards betterment in its future performance

- Current ratio of NTPC indicates poor liquidity position the company and it is suggested that the company must reduce the amount of current liabilities and/or increase the amount of current assets up to a reasonable level.
- The liquidity position of company is not good all the ratios of the liquidity are below the standard which is not sound for the company day to day requirements. So it is suggested that the company should take necessary steps to maintain the adequate level of ratio.
- NTPC has not been able to efficiently use the increase in inventory stock over the period of the study. It is

suggested that the level of inventory should be fixed up scientifically in order to avoid the problem of under-stocking and over-stocking.

- As the debtors list of the company mainly comprises of different State Electricity Boards, the company should formulate a sound collection mechanism with the help of the central government in order to ensure quick realization of dues.
- Through the study of working capital, it seems that management is using long term funds to short term requirements. This together pushed down the net working capital to the present level. The fall in working capital is a clear indication that the company is utilizing its short term resources with efficiency. It is suggested that the company must reduce the amount of current liabilities and/or increase the amount of current assets up to a reasonable level.
- Total assets turnover ratios were low during the study period and must improve towards a positive direction. The company should maintain a fixed percentage of sales revenue regarding cost of employees' remuneration.
- The operating profit margin and net profit margin of NTPC have been much lesser than gross profit margin indicating higher operating cost. It is suggested to reduce operating expenses to improve the profitability.
- The profitability position of the company is good, it means the resources are efficiently used by the management but some ratios of profitability shows decreasing trend while as they are above the standard. So it is suggested that the company should take necessary steps to take control on decreasing trend and also maintain same policies for the betterment of profitability in future.

- The company should try to improve profitability and set a new benchmark for the industry in the Indian context. Economy in operation may be achieved by installing mega power project in place of small size plants.

Thus to conclude, the study results in that the liquidity position of company are not good, however the profitability position of the said company above the standard norm, which results that the company has been suffering by liquidity ratios. The study is recommending the management to use fund efficiently in order to avoid the risk of liquidity in future

## 7. Conclusion

This paper presented the analysis of financial strength of National thermal power corporation limited (NTPC Ltd.)

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