A Study on Fundamental Analysis of Renewable Energy Companies

Dr.S.Kamalasaravanan [1], Anupama S [2]

[1]Professor, Department of Management Sciences, Hindusthan College of Engineering And Technology, Coimbatore.

[2] II (M.B.A),Department of Management Sciences,Hindusthan College Of Engineering And Technology, Coimbatore.

ABSTRACT:

Fundamental analysis is the examination of the underlying forces that affect the well-being of the economy, industry groups, and companies. As with most analysis, the goal is to derive a forecast and profit from the future price movements. While the renewable energy in India is to advance economic development, improve energy security, improve access to energy, and mitigate climate change. The major players in the organised renewable energy companies consists of First Solar, Gita Renewable Energy Ltd, Tata Power Solar Ltd, Waa Solar Ltd, Websol Energy System Ltd, Ujaas Energy Ltd. However, for any sector to attract investors, it should be able to present numbers that exhibit profitability, or a possibility to turn profitable in the future. Furthermore, the sectors such as Renewable Energy (RE) which require huge investment compared to traditional energy technologies should be supported by strong RE policy instruments.

Key words: Renewable energy companies, Fundamental analysis.

1.1 Introduction

The primary objective for deploying renewable energy in India is to advance economic development, improve energy security, improve access to energy, and mitigate climate change. Sustainable development is possible by use of sustainable energy and by ensuring access to affordable, reliable, sustainable, and modern energy for citizens. Strong government support and the increasingly opportune economic situation have pushed India to be one of the top leaders in the world's most attractive renewable energy markets. The government has designed policies, programs, and a liberal environment to attract foreign investments to ramp up the country in the renewable energy market at a rapid rate. It is anticipated that the renewable energy sector can create a large number of domestic jobs over the following years.

Environmental crises across globe such as global warming, exhaustion of fossil fuels, and pollution driven numerous health hazards are the motivating factors to switch towards alternative sources of energy such as renewable energy. Although there has been a spike in renewable energy growth rate, even with a high growth rate, renewable energy production still represents only a small portion of today's global energy consumption. Global renewable energy capacity is set to expand by 50% in the next five years. According to the latest report of the International Energy Agency (IEA), the world's solar capacity will grow by 600 GW and renewable electricity is expected to grow by 1,200 GW by 2024.

These figures clearly indicate that there's a huge potential to be exploited in the world of renewable energy. However, for any sector to attract investors, it should be able to present numbers that exhibit profitability, or a possibility to turn profitable in the future. Furthermore, the sectors such as Renewable Energy (RE) which require huge investment compared to traditional energy technologies should be supported by strong RE policy instruments. Without identifying the trend in the financial performance of the RE companies, it is difficult to assess the impact of specific RE policy instruments on their performance. The present study aims to contribute to the existing research in several ways: First, the study measures the financial it identifies the trend in the return on equity (ROE) measures of these companies by using a machine learning algorithm (K-means cluster). Perhaps, it is the first study that uses the machine learning algorithm to find out the trend in the companies' financial performance. In the previous studies, companies were grouped based on the energy produced such as wind, solar, biomass etc. and financial performance of the companies in each category was studied using ROE/Return on Asset (ROA). In the present study, financial performance of the RE companies is analyzed by using ROE and clustering has been done based on their ROE to identify the trend in their performance. Hence, the present study avoids the identification of pre-concluding trends in the performance of companies. Finally, the study tries to outline the fundamental of the companies.

1.) Fundamental analysis maintains that markets may misprice a security in the short run but t performance of selected 28 Indian and US RE companies by using ROE decomposition. Second,hat the "correct" price will eventually be reached. Profits can be made by trading the mispriced security and then waiting for the market to recognize its "mistake" and reprice the security.

What is Fundamental Analysis?

A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). Fundamental analysis is about using real data to evaluate a security's value. The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security. This method of fundamental analysis is exactly opposite to the technical analysis.

Fundamental analysis of a company helps you get to its stock's fair price, which may not always be trading at its fair value. Often it is overpriced or underrated.

Fundamental analysis helps in predicting the long-term trends in the market. It is generally used for long-term investments as it enables you to understand the price that the stock should reach. It also allows you to find good companies forinvestment, such as those with strong growth potential.

Statement of the Problem

The primary objective for deploying renewable energy in India is to advance economic development, improve energy security, improve access to energy, and mitigate climate change. Sustainable development is possible by use of sustainable energy and by ensuring access to affordable, reliable, sustainable, and modern energy for citizens.

The renewable industry are a major consumer of water and energy resources and is therefore subject to increasingly stringent environmental standards. This constrains them to rethink extraction, production and distribution methods in order to obtain or maintain their license to operate.

The main objectives of the study is to know past 5 years performance of selected 10 renewable energy companies in the stock market and to know future potential performance. To analyze all the scripts, fundamental analysis is used. In the fundamental analysis, economic indicators, ratios of the companies are studies. These are studied to interpret to take investment decisions.

Objectives of the Study:

- To study the fundamental analysis of the selected renewable companies.

- To study the financial performance of the selected renewable companies.

- To analysis the possibility position of selected renewable energy companies.

Research Methodology

Research Design

The present study deal with Quantitative research. (Quantitative research is the process of collecting and analyzing numerical data. It can be used to find patterns and averages, make predictions, test causal relationships, and generalize results to wider populations.)

Time Period

This study is made of a period of 5 accounting years from 2018-2022.

Size of sample

- Large Cap
    - First Solar

- o   Gita Renewable Energy Ltd
- Mid Cap
  - o   TATA Power Solar Ltd
  - o   Waa Solar Ltd
- Small Cap
  - o   Websol Energy System Ltd
  - o   Ujaas Energy Ltd

FINDINGS OF THE STUDY

- ✓ This study represents that Gita Renewable Energy Ltd has the highest EPS in the year 2021 and is the highest ratio during five years and Ujaas Energy Ltd has the lowest EPS ratio in 2019. Highest EPS ratio is always good because if EPS is higher market value of equity share will be higher in stock exchange and thus it is good measure of profitability.
- ✓ This study represents that Power Solar has the highest P/E ratio as 183.4838 in the year 2018, and Ujaas Energy Ltd has the lowest P/E ratio as 0.59. Lower P/E ratio is always good because higher the P/E ratio indicates stock is expensive to buy.
- ✓ This study represents that the market price of all five years is higher than the book value. In 2022 the book value is 258.46 which shows the favourable result. A relatively high book value per share is relation to stock price.
- ✓ This study represents the First Solar's P/E ratio is above 1 and the stocks are overvalued and other company's P/E ratio is below 1 which is the favourable ratio. A P/E ratio above 1 means that company's stock is overvalued and below 1 indicates that it is undervalued.
- ✓ Gita Renewable Energy Ltd has the highest P/S ratio as 402.66 in 2021 and Waa Solar Ltd has the lowest P/S ratio as 2.36 in 2018. So 2022 indicates the good P/S ratio.
- ✓ This study represents that First Solar has the highest ROE of 141.6856% in 2022 and Gita Renewable Energy Ltd has the lowest ROE of 0.019465 in 2018. A company's Return on Equity (ROE) measures its profitability by revealing how much profit a company generates with the money shareholders have invested.
- ✓ Gita Renewable Energy Ltd is having the highest Return on Capital Employed of 5966.41 in 2021 and Websol Energy System Ltd has the lowest Return on Capital Employed of 1.4 in the Year 2020.

Suggestions

- This study suggests investing for long term for getting high return.
- The investors can invest in Gita Renewable Energy Ltd because it has the highest EPS ratio when compared to all other renewable energy companies.
- First Solar's has moderate in fundamental analysis due to Price to Earnings.
- First Solar has the good return on equity in past three years due to that we can make much investment in that share.
- Ujaas Energy Ltd has the lowest P/E ratio which is always good for the company.
- Websol Energy System Ltd has the lowest Return on Capital Employed, a low Return on Capital Employed value indicates that a low chunk of profits can be invested back into the company for the benefit of shareholders.

Conclusion

Survival of the companies largely depends on satisfaction of their investor and consumer for whom they are in business. Satisfied investor will take risk in future are would like to invest in the companies from whom they are in advantage. Companies with positive ratio have to develop more efficiency in their effort with optimize utilization of their available resources. Survival of the fittest is the ultimate universal law.

From the companies taken in the study Ujaas Energy Ltd has the lowest P/E ratio as 0.59. Lower P/E ratio is always good because higher the P/E ratio indicates stock is expensive to buy. Gita Renewable Energy Ltd has the highest EPS Highest EPS ratio is always good because if

EPS is higher market value of equity share will be higher in stock exchange and thus it is good measure of profitability. First Solar has the highest ROE, a company's Return on Equity (ROE) measures its profitability by revealing how much profit a company generates with the money shareholders have invested. The companies should investing for long term for getting high return.

Bibliography

❖   Ahmed s Wafi, H. H. (2015). "Fundamental analysis models in financial market".

❖   al., G. e. (2005). Renewable energy can be used in several fields, one example being the economic sector, in terms of measuring efficiency, profitability and competitiveness .

❖   al., Y. e. (2011). Comparing OECD and non-OECD countries, non-OECD economies use a higher proportion of RE in the total energy used, but OECD economies use more geothermal, solar, tide and wind sources.

❖   Dr.C.Balakrishnan. (2016). The study can be analyzed with many aspects like financial facts, financial ratios, financial health, financial strength and utilization of assets, etc.

❖   Strass, N. a. (2003). Has focused on the relationship between stock prices and dividend value model by pooling firms using cointegration forecasting models to test the long term relationship between dividends and stocks prices. .

❖   Tiwari, H. V. (2009). "A Fundamental analysis of public sector banks in India" .

❖   Tyagi, V. C. (2011). Venkatesh C K and Madhu Tyagi .