Evaluating the Long-Term Stock Performance of Adani Power and Reliance Power

Sooraj S Pai[1]; Vignesh Baburaj Pai[2]; Dr. Prasanth A P[3]

[1,2]Department of Commerce and Management, Amrita School of Arts, Humanities and Commerce, Kerala, India

[3]Assistant Professor, Department of Commerce and Management, Amrita School of Arts, Humanities and Commerce, Kerala, India

Corresponding Author Email: KH.AH.P2COM24011@kh.students.amrita.edu

Abstract—This study uses a thorough examination of financial metrics to assess the long-term stock performance of two well-known Indian power generation companies, Adani Power and Reliance Power. The study contrasts the financial standing of the businesses in terms of solvency, liquidity, profitability, and efficiency. This study collects secondary data. The report offers a thorough evaluation of Adani Power and Reliance Power's long-term investment potential by examining historical data and projecting future possibilities. For investors looking to make well-informed choices regarding these companies in the Indian power generation sector, the findings provide insightful information.

Keywords: Stock, ratios, Adani power, Reliance power

I. INTRODUCTION

A stock market is, at the very least, a venue for stock purchases and sales. It serves as a gauge of the economic cycle as well. on general, stock prices rise on the market when the economy is performing strong. However, even with extremely solid stocks, you may anticipate a decrease in stock prices when the economy is weak. It's also important to remember that stock prices are mostly determined by how well a company performs. When a business is doing well, the price of its stocks will also tend to increase; the opposite would happen if the business is not earning well (Yamazaki, 2019).

The Stock Exchange, as defined by the Indian Stocks Contracts (Regulation) Act of 1956, is an entity, whether incorporated or not, established to facilitate, regulate, and oversee the buying, selling, and trading of securities. It can be broadly categorized into two segments: The primary market is where businesses, governments, and other incorporated entities raise funds. This is typically done through initial public offerings (IPOs), which involve the sale of new securities for the first time. The secondary market is where investors trade existing securities with other investors, thus maintaining liquidity in the market. The National Stock Exchange (NSE) of India is the largest stock market in the country and the fourth largest globally in terms of equities Trading volume, as per the World Federation of Exchanges (WFE) data from 2015. NSE pioneered electronic trading in India when it commenced operations in 1994. It has consistently held the position of the largest stock exchange in India since 1995, both in terms of total turnover and average daily turnover for equity shares, as per SEBI data.

The last several years have been a difficult time for India's electricity industry. The largest private producer of thermal electricity in India is Adani electricity Limited (APL), which is a division of the diversified Adani Group. Our 15,250 MW of power producing capacity is made up of 40 MW of solar electricity in Gujarat and thermal power plants in Maharashtra, Karnataka, Rajasthan, Chhattisgarh, Madhya Pradesh, and Jharkhand. They established the first Supercritical thermal power station in history using coal and registering it under the Kyoto Protocol's Clean Development Mechanism (CDM). As a new player in the power generating industry in 2006, they took advantage of the Adani Group's project management expertise to successfully and economically establish its initial power plant in Mundra (About Us: Adani Power, n.d.).

The largest corporate conglomerate in India, the Reliance Group, owns Reliance Power Limited as a subsidiary. Reliance Power was founded with the goal of creating, building, and managing power projects in India and abroad. Both directly and via its subsidiaries, the corporation has a substantial portfolio of power production capacity that is both operational and in development. The company operates power generation assets with a capacity of nearly 6000 MW. Along with three coal-fired projects that will be powered by reserves from captive mines and supplies from India and outside, twelve hydroelectric projects are being constructed, including six in Arunachal Pradesh, five in Himachal Pradesh, and one in Uttarakhand. The 3,960 MW Sasan Ultra Mega Power Project in Madhya Pradesh is another project in Reliance Power's portfolio. UMPPs are a key component of the Indian government's intention to collaborate with power production firms to build 4,000 MW of projects to address the country's power shortfall. Additionally, Reliance Power has registered projects for the issuance of Certified Emission Reduction (CER) certificates with the Clean Development Mechanism executive board (About Us: Reliance Power, 2020).

II. STATEMENT OF THE PROBLEM

Adani Power and Reliance Power are major players in India's power generation sector. Both companies have made significant investments in thermal and renewable energy projects, so their stock performance reflects broader trends in the energy sector. However, their financial trajectories have been influenced by a variety of internal and external factors, necessitating an in-depth assessment of their long-term stock performance.

The primary issue addressed in this study is the need to systematically evaluate and compare the long-term stock performance of Adani Power and Reliance Power. This entails reviewing historical stock data, financial ratios, and market trends to identify patterns and factors that have influenced stock prices over time. The study evaluates the stock prices of Adani Power and Reliance Power over time, considering market fluctuations, economic downturns, and sector-specific challenges. It assesses their financial health using key ratios. A comparative analysis is conducted to identify strengths and weaknesses in each company's financial performance and market positioning.

III. OBJECTIVES

- To examine the volatility and long-term stock performance of Reliance Power and Adani Power.
- To assess important financial metrics such as debt level, profitability, and revenue growth.
- To identify the key factors influencing their stock prices.
- To determine the impact of market conditions and economic factors on stock performance.

IV. METHODOLOGY

This study is entirely descriptive in nature, relying on secondary data primarily gathered from online resources. Data is taken from various publications, journals, news articles, money control etc.

V. LIMITATIONS

- Historical data might be limited.
- Economic cycles are often linked to the performance of power companies; during downturns, lower demand may have an impact on revenues and stock prices.

VI. REVIEW OF LITERATURE

The Adani Group aims to improve its financial performance and attain long-term sustainable growth. The Adani Group's stock market performance provides insightful information about the company's future direction and investment potential. The Adani Group has steadily over the years produced outstanding financial results while deftly navigating shifting market dynamics. By means of its strategic investments across multiple sectors and its diverse business approach, the group has successfully capitalized on opportunities and established long-term revenue streams. Furthermore, its emphasis on growing its international operations and breaking into new markets offers promising opportunities for future growth (Encelatah, Jeevitha, & Premkumar, 2024).

A study examining nine listed companies in the Adani Group, the researcher also takes into account the share prices of LIC, the group's largest stakeholder, and SBI, the major lender to the group. Adani Total Gas experienced a 56% decrease and Adani Enterprise a 54% reduction. Adani Total Gas experienced the most significant drop, with over 83% drop. The research report had the least impact on ACC Ltd.'s share price (21.169%), followed by Adani Wilmar (26.48%) and Adani Power (26.43%). The Hindenburg Research Report negatively impacted SBI and LIC's share prices, as they have not generated exceptional returns for investors(Ghosh, 2023).

The study investigates the impact of financial leverage on Reliance Industries Ltd.'s profitability. It confirms two hypotheses: no significant relationship between financial leverage and profitability, and no significant impact of leverage on profitability. The results show a strong positive correlation between financial leverage and EPS, ROE, and ROA, but no significant correlation between financial leverage and NPR. Therefore, Reliance Industries Ltd.'s profitability was not significantly impacted by leverage (Meghanathi & Chakrawal, 2021).

A study examined how the Union Budget affected the Indian stock market. An Event Study (OLS Market Model) with a 10-day Event Window was carried out by the researcher. In order to assess the impact, the researcher took into account the BSE IT, BSE HEALTHCARE, BSE FINANCE, and BSE CONSUMER DURABLE indexes. The analysis came to the conclusion that several indices had seen positive returns as a result of the sector-specific favourable announcements made in Union Budgets (Ghosh P. , 2020).

VII. ANALYSIS

	Adani Power					Reliance Power				
	2024	2023	2022	2021	2020	2024	2023	2022	2021	2020
Per Share Ratio										
Basic EPS(Rs)	46.24	23.32	9.95	3.75	5.77	0.13	1.88	(0.85)	0.20	(1.39)
PBT/Share	47.63	19.16	17.38	(1.30)	(3.48)	0.11	1.75	(0.80)	0.20	(1.39)
Net Profit/Share	48.61	26.57	13.06	(1.29)	(3.48)	0.12	1.75	(0.82)	0.20	(1.39)
Profitability Ratio										
ROA (%)	24.94	14.06	7.01	(2.04)	(5.95)	0.33	4.10	(1.58)	0.31	(2.23)
Total Debt/Equity	0.80	2.21	8.04	0.77	0.79	0.45	0.61	0.67	0.67	0.71
Asset Turnover Ratio (%)	0.53	0.51	0.58	1.83	4.46	0.00	0.00	0.00	0.22	0.30
Liquidity Ratio										
Current Ratio	1.66	1.15	1.00	0.15	0.14	0.32	0.26	0.26	0.23	0.22
Quick Ratio	1.13	1.00	0.85	0.15	0.14	0.32	0.26	0.26	0.23	0.22
Valuation Ratio										
Retention Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Price/Book Value Ratio	6.46	5.01	14.27	4.06	1.49	1.21	0.42	0.50	0.14	0.04

Table. 1 (Source: Moneycontrol)

Enterprise Value (Cr)	Adani Power	Reliance Power
2024	225795.78	15527.02
2023	105012.98	9102.36
2022	109752.97	10759.63
2021	38940.39	7170.70
2020	16303.86	6585.42

Table. 2 (Source: Moneycontrol)

VII.I. BASIC EARNINGS PER SHARE

Analysing Adani Power's data revealed a negative Basic EPS for the first two of the five fiscal years. A negative EPS indicates the company is losing money and shareholders are not receiving any earnings per share. The company's profits are insufficient to reinvest or distribute dividends. The following three financial years show positive basic EPS. In recent years, EPS has increased significantly. For the fiscal year ended March 31, 2024, the EPS was 46.24 crore rupees. This indicates that the company is making significant profits.

Based on data analysis, Reliance Power's Basic EPS fluctuates between negative and very low amounts. This could indicate a company experiencing operational challenges, decreased profitability, or increased expenses. Such a trend would reduce investor confidence.

VII.II. PROFIT BEFORE TAX PER SHARE

Adani Power's first two financial years (out of 5) had a negative PBT, suggesting that the company's core operations were unprofitable. Over the next three years, the company's profit before taxes (PBT) was positive and increasing, indicating significant profit for each share. The company effectively manages its core operations and generates profits, excluding tax effects.

Reliance Power's PBT fluctuates between negative and very low figures. The trend is not stable. This could indicate ineffective management and efficient core operations. The only benefit for the company is the ability to carry forward losses from previous years to reduce taxes.

VII.III. NET PROFIT PER SHARE

Adani Power had a negative figure for the first two of the five selected financial years. The subsequent three fiscal years show an upward trend. From March 2022 to March 2023, the Net Profit/Share doubled. The previous fiscal year also showed a significant increase.

Reliance Power's ratios fluctuate between negative and very low figures. Reliance Power is unlikely to pay dividends to shareholders because it may have incurred losses.

VII.IV. RETURN ON ASSETS

After analysing Adani Power's data, there is a negative figure for the two fiscal years ended March 31, 2020 and March 31, 2021, indicating that the company may be incurring a net loss and is not generating enough profit from its assets. From March of 2022 to March of 2021, there is a drastic upward trend in the ROA. The most drastic being the doubling of ROA from the Financial year ended 31st March 2022 to the financial year ended 31st March 2023.

Analysing Reliance Power's data reveals that there was a net loss over two fiscal years due to a negative ROA. The ROA was never favorable for the company as it was below 5 for the 5 chosen financial years. This means that Adani power is not efficiently using its assets to generate returns, possibly due to poor management or operational challenges.

From the above analysis we can see that Adani power is effectively utilizing its assets and generating good profits. From an investors point of view Adani power is where they would invest, even though Reliance power has goodwill, fame and reputation.

VII.V. TOTAL DEBT/EQUITY RATIO

Analysing Adani Power's data reveals that in the financial years ended March 31, 2020 and March 31, 2021, the Total Debt/Equity ratio was favourable and under 1 time. This indicates that the company's financial structure is conservative, low-risk, and less reliant on borrowings. In the subsequent two financial years, the Ratio was 8.04 times and 2.21 times which is very unfavorable, for these two financial years, the company relied a lot on debt. In the financial year ended 31st March 2024, the Ratio was once again favorable and was under 1 time (0.80).

Reliance Power's data shows that the ratio is less than one in all of the chosen five financial years, indicating that the company relied less on borrowings, took less risk, and is conservative in nature.

Comparing the analyses of both companies, we can conclude that Reliance Power prefers to borrow less and is conservative in nature.

VII.V. ASSET TURNOVER RATIO

According to Adani Power's data, the company was very effective in using its assets to generate profits during the first two of the five chosen financial years. In the following three financial years, we can see that the company's ability to use its assets has declined significantly.

Analysing Reliance Power's data discloses that the company was effectively using its assets to generate profits for the first two of the chosen five financial years. In the following three financial years, we can see that the asset turnover ratio was 0%; because this firm has been in operation for a long time. Investors may view zero ATR as a red flag, indicating that the company is not generating any sales from its assets.

Investors are hesitant to invest in Reliance Power due to its Zero ATR for three consecutive financial years, favouring Adani Power.

VII.VI. CURRENT RATIO

Adani Power's Current Ratio has consistently increased over the last five years, indicating an increasingly favourable liquidity position as of March 2024. The current ratio of Reliance Power has shown a consistent upward trend over the last five years; however, the current ratio indicates that the liquidity position remains unfavourable.

The Liquidity position of Adani power is favorable as on March 2024. Adani can meet all its short-term liabilities with its short-term assets. The same cannot be said for Reliance power.

VII.VII. QUICK RATIO

The Quick ratio of Adani Power’s has been steadily rising over the last five years. The firm's liquidity was lower in the fiscal years 2020-2021 and 2021-2022, as the Corona virus pandemic and lockdowns had an impact on Adani Power's liquidity. As of March 2024, the company's Quick ratio is greater than one, indicating a favourable liquidity position. Also in March 2023, the company's liquidity was favourable.

According to the data from Reliance Power, the quick ratio has shown a consistent upward trend over the last five years. Even though there is such a trend, the liquidity of Reliance power is in a bad position, it is far below the favorable level of 1.

We can see that Adani Power faces a lower risk of financial distress because it can easily meet all of its short-term liabilities. The same cannot be said about Reliance Power, which has an unfavourable Quick Ratio.

VII.VIII. RETENTION RATIO

Both company’s retention ratios have been zero for the past five fiscal years. Both companies are paying out more of their earnings as dividends, with a focus on returning value to shareholders. Mature and stable companies may have a lower retention ratio because they generate enough profit to pay out a larger portion of it as dividends without jeopardising operations. Investors looking for income may prefer companies with a lower Retention ratio, which means higher payouts.

VII.IX. PRICE/BOOK VALUE RATIO

Adani Powers' price/Book value ratio has been favourable over the last five years. The highest was in the fiscal year ended March 31, 2022. This indicates that the stock is trading significantly higher than its book value, indicating overvaluation and confidence in future growth. Whereas the Price/Book value ratio has been unfavourable and significantly below the desired level of 1 for 4 of the 5 selected financial years, according to Reliance Power's data.

VIII. FINDINGS

- Adani Power's EPS have significantly improved, indicating strong profitability. Reliance Power's fluctuating earnings per share EPS suggest operational challenges.
- Reliance Power's PBT has fluctuated, whereas Adani Power's has been continuously positive and growing.
- Adani Power's net profit has increased significantly, while Reliance Power's has remained negative or extremely low.
- Adani Power has an increased ROA, indicating better asset utilisation. Reliance Power's ROA has been consistently low.
- Adani Power's Total Debt/Equity Ratio has fluctuated but has consistently been lower than Reliance Power's, indicating a more cautious approach to debt.
- Adani Power's asset turnover has fallen in recent years, whereas Reliance Power's has been zero for three years running, indicating inefficient asset utilisation.

- Adani Power's current ratio has been steadily improving, indicating a strong liquidity position. Reliance Power's current ratio has improved but is still unfavourable.
- While Reliance Power's quick ratio is still unfavourable, Adani Power's has greatly improved.
- Both companies have a zero-retention ratio, indicating a commitment to returning value to shareholders through dividends.
- Adani Power's Price/Book Value Ratio has consistently been higher than Reliance Power's, indicating that it is trading at a premium.

IX. CONCLUSION

Based on the analysis, Adani Power seems to be in a better financial position than Reliance Power. Adani Power has demonstrated steady profitability, effective use of its assets, and a solid cash position. Even though Reliance Power has improved recently, its financial standing is still not great. Adani Power is a company that investors looking for a profitable and stable investment with a dividend payout focus may want to look into. Before making any investment decisions, it's crucial to carry out additional research and take other aspects like industry trends, the competitive environment, and management calibre into account.

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