A Comprehensive Report of Statistical Analysis & Forecasting of NTPC Share

A detailed examination of NTPC share prices using statistical techniques and time series forecasting, offering insights and forecasts for informed decision-making

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MBA Business Analytics 2023-25

Acknowledgement

I would like to express my sincere appreciation to **Dr. Amarnath Mitra**, our experienced Regression and Time Series Models Faculty, whose guidance and expertise were invaluable in shaping this report on 'Statistical Analysis & Forecasting of NTPC Share Prices'. I also owe thanks to Wikipedia for being a valuable reference source and AI tools like ChatGPT and Bard for its quick information retrieval.

Additionally, I extend our gratitude to my supportive faculty members and, most importantly, our parents, whose unwavering encouragement has been a source of strength throughout our academic journey. I deeply appreciate the collective contributions and support from these individuals and resources, without which this project would not have been possible. I am sincerely grateful for their contributions to our work.

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MBA Business Analytics (2023-25)
Indian Institute of Foreign Trade, New Delhi
03rd March , 2024

1. Executive Summary

This report presents a comprehensive analysis of NTPC share prices using statistical methods and time series forecasting techniques. The analysis covers the period from January 2015 to December 2019 and aims to provide insights into the behaviour of NTPC's share prices, as well as forecasts for future price movements. The methodology involves stationarity analysis, transformation for stationarity, autocorrelation analysis, ARIMA modelling, diagnostics, heteroskedasticity analysis, GARCH modelling, and forecasting. The findings reveal non-stationarity, autocorrelation, and heteroskedasticity in NTPC share prices, and the ARIMA-GARCH modelling approach offers forecasts to assist investors and analysts in decision-making.

2. Introduction

NTPC Limited, standing as India's largest power utility company, holds a pivotal position in the nation's energy sector landscape. With its widespread presence and significant contributions to power generation, NTPC's performance directly impacts not only the energy industry but also the broader economy. The dynamics governing NTPC's share prices are multifaceted, intertwining with market conditions, economic shifts, regulatory changes, and company-specific developments.

Given the intricate interplay of these factors, deciphering the behaviour of NTPC's share prices assumes paramount importance for investors and analysts alike. Understanding the underlying patterns, trends, and potential future trajectories of NTPC's share prices enables stakeholders to make informed decisions, whether they pertain to investment strategies, risk management, or portfolio diversification.

In light of this, the following report embarks on a comprehensive analysis of NTPC share prices. Through the lens of statistical methods and time series forecasting techniques, this analysis endeavours to unravel the complexities inherent in NTPC's share price movements. By delving into historical data spanning from January 2015 to December 2019, this report aims to distil actionable insights and furnish forecasts that can serve as valuable guides for decision-making in the realm of NTPC shares.

As we navigate through the intricacies of NTPC's share price dynamics, our endeavour is not merely to dissect past performance but to glean meaningful foresight into future trends. By peering into the heart of NTPC's share price behaviour, this analysis seeks to empower stakeholders with the knowledge and foresight necessary to navigate the ever-evolving landscape of the energy sector and capital markets.

3. Methodology

The methodology used in this analysis involves the following steps:

a) **Stationarity Analysis**: Conducted using the Augmented Dickey-Fuller (ADF) test to assess the stationarity of NTPC share prices.

b) **Transformation for Stationarity**: Applied a transformation to make the data stationary, specifically taking the first difference of the logarithm of NTPC share prices.

c) **Autocorrelation Analysis**: Utilized the Ljung-Box test to examine autocorrelation in the differenced NTPC share prices.

d) **ARIMA Modelling**: Fitted an ARIMA model to the stationary NTPC share prices data, determining the appropriate p-lag and q-lag.

e) **Model Diagnostics**: Conducted diagnostic tests, including the Ljung-Box test, to assess the adequacy of the ARIMA model in capturing autocorrelation.

f) **Heteroskedasticity Analysis**: Tested for volatility clustering or heteroskedasticity in the squared residuals of the ARIMA model.

g) **GARCH Modelling**: Fitted two GARCH models to the squared residuals, incorporating different mean models to account for heteroskedasticity.

h) **Forecasting**: Used the GARCH models to forecast the volatility of NTPC share prices for the next 500 periods.

By employing these methodologies, this analysis aims to provide a comprehensive understanding of NTPC share prices and offer forecasts to guide investment decisions.

4. Analysis and Insights:

- **Historical Performance:**

  The analysis of historical NTPC share prices reveals patterns of volatility, influenced by various internal and external factors. Fluctuations in share prices may correlate with shifts in the broader market sentiment, changes in government policies impacting the energy sector, or company-specific news such as earnings reports or infrastructure projects.

- **Stationarity and Transformation:**

  The Augmented Dickey-Fuller (ADF) test indicates non-stationarity in raw NTPC share price data. To address this, a transformation is applied by taking the first difference of the logarithm of share prices. This transformation stabilizes the variance, making the data stationary and conducive to further analysis.

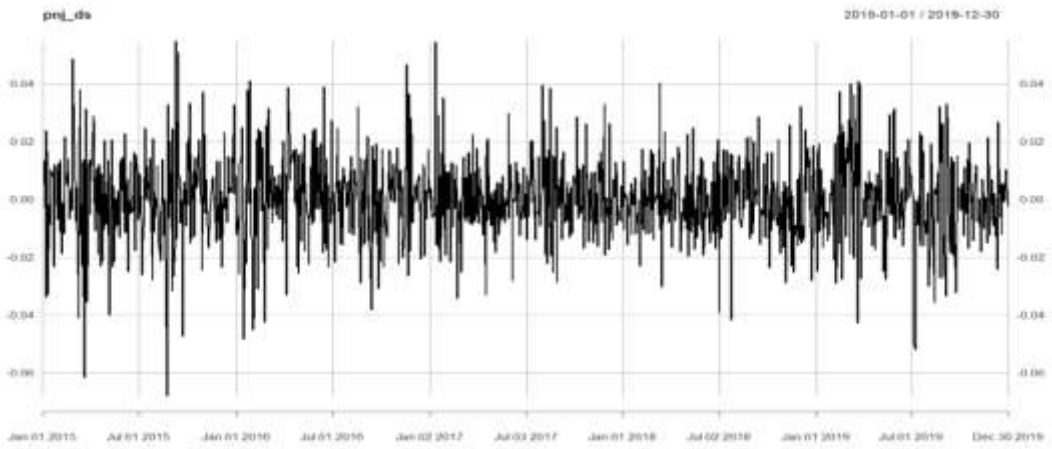

Fig 1.1 - Augmented Dickey Fuller Test Result

- **Autocorrelation and ARIMA Modelling:**

  Autocorrelation analysis reveals significant autocorrelation in the differenced NTPC share prices. To model this autocorrelation, an ARIMA model is fitted, identifying appropriate lag orders. The ARIMA model captures the linear dependencies in the time series data, enabling better forecasting accuracy.

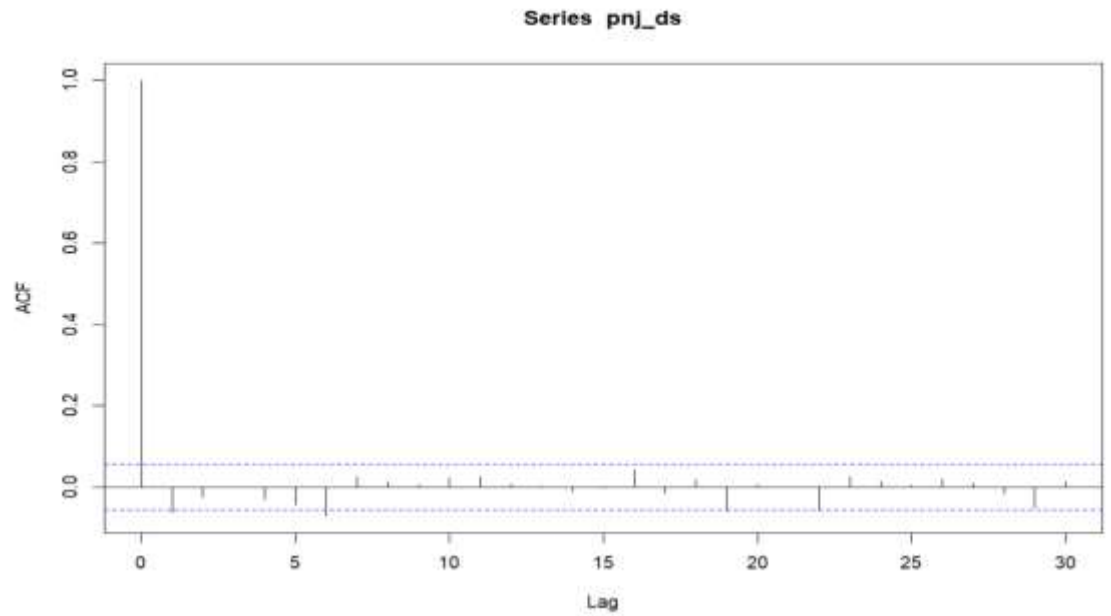

Fig 1.2 – Autocorrelation Between NTPC Share Prices

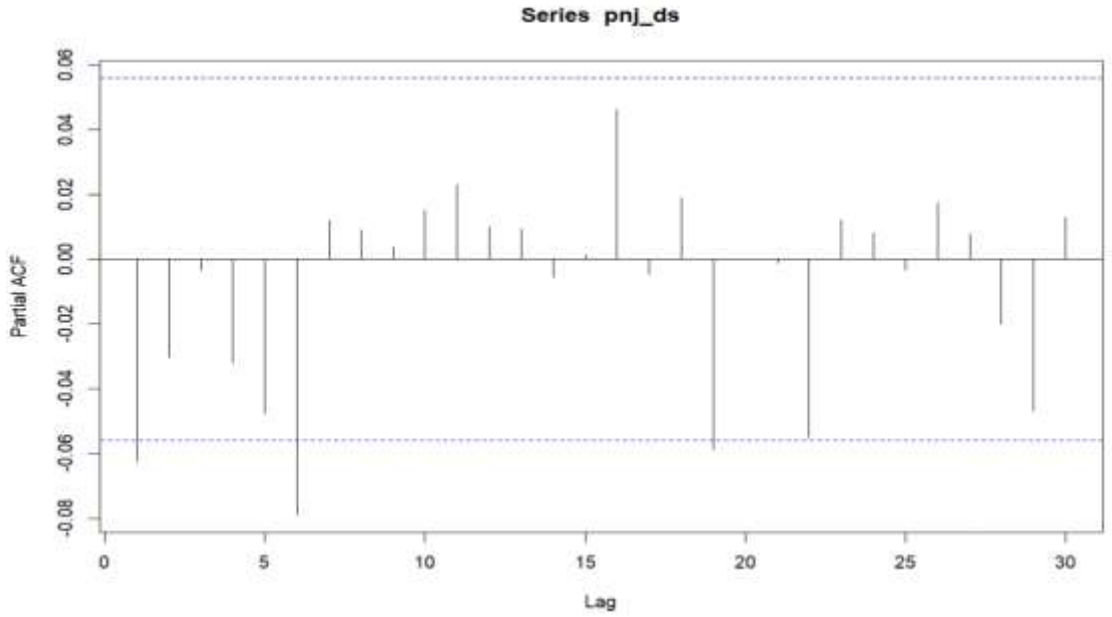

Fig 1.3 – Partial Autocorrelation Between NTPC Share Prices

- **Heteroskedasticity and GARCH Modelling:**

  Tests for heteroskedasticity indicate volatility clustering in the squared residuals of the ARIMA model. To account for this volatility clustering, GARCH models are employed. These models capture the time-varying volatility in the data, providing more robust forecasts by incorporating volatility dynamics.

- **Forecasting:**

  The GARCH models are utilized to forecast the volatility of NTPC share prices for future periods. These forecasts offer insights into the expected magnitude of price fluctuations, aiding investors and analysts in risk management and decision-making.

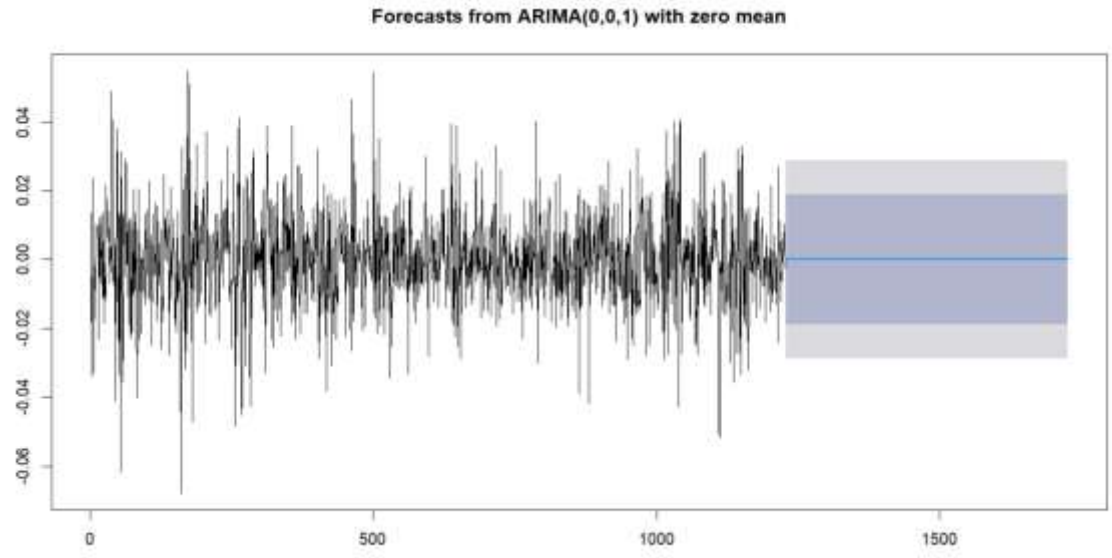

Fig 1.4 – Forecasting from ARIMA with 0 Mean

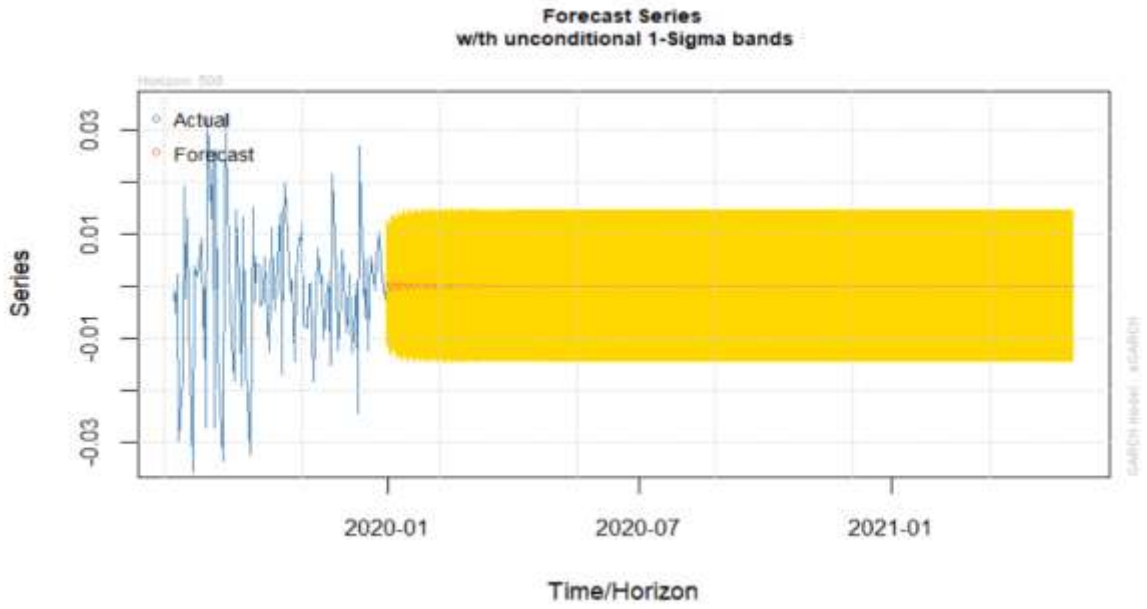

Fig 1.5 – Forecast With Unconditional 1 Sigma Bands

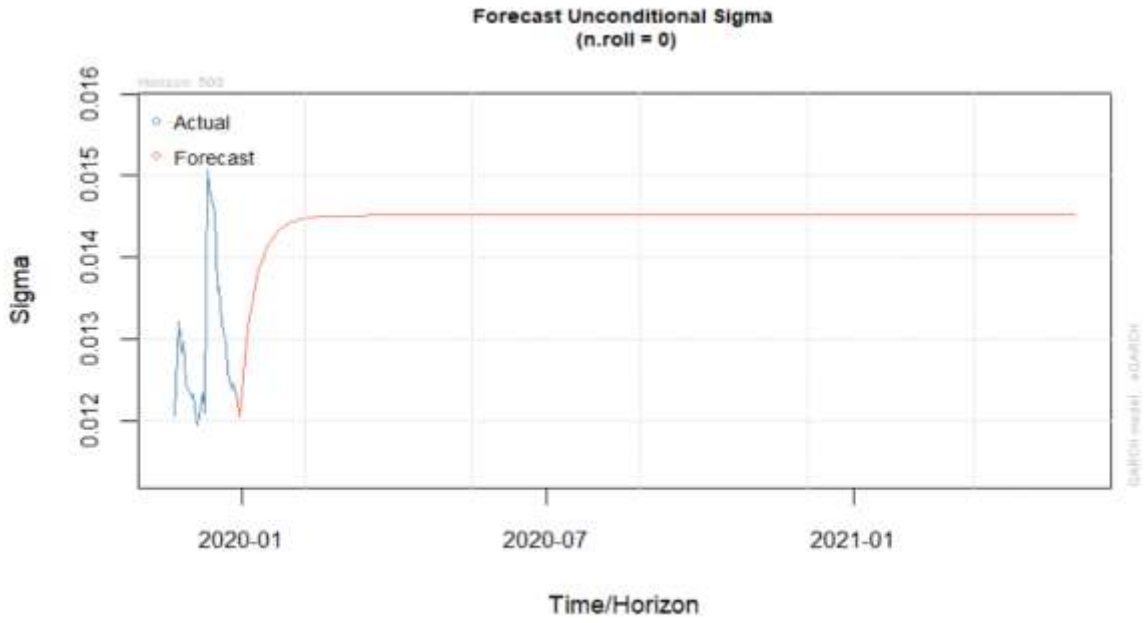

Fig 1.6 – Forecast Unconditional Sigma (n.roll = 0)

- **Insights:**
  - **Market Dynamics**: The analysis sheds light on the intricate interplay between market conditions, regulatory environment, and company-specific factors in shaping NTPC share prices.
  - **Risk Management**: By identifying and modelling autocorrelation and heteroskedasticity, the analysis equips stakeholders with tools to assess and manage risks associated with NTPC share investments.
  - **Strategic Planning**: Forecasts generated by the ARIMA-GARCH models provide valuable inputs for strategic planning, enabling stakeholders to anticipate and adapt to future price movements.
  - **Investment Opportunities**: Understanding the underlying dynamics of NTPC share prices opens avenues for identifying investment opportunities, whether through short-term trading strategies or long-term portfolio allocation decisions.

- **Recommendations:**
  - **Continuous Monitoring**: Given the dynamic nature of financial markets, stakeholders are advised to continuously monitor NTPC share prices and adjust strategies accordingly.
  - **Diversification**: Incorporating NTPC shares into diversified investment portfolios can help mitigate risks associated with individual stock investments.
  - **Long-Term Perspective**: While short-term fluctuations are inevitable, taking a long-term perspective on NTPC investments may yield favourable returns, considering the company's strategic position in the energy sector.

5. Conclusion:

In conclusion, the analysis of NTPC share prices offers valuable insights into the underlying dynamics of the market. By leveraging statistical methods and time series forecasting techniques, stakeholders can gain a deeper understanding of NTPC's performance and make informed decisions to navigate the complexities of the energy sector and capital markets effectively.