Identifying Growth Stock with Low P/E Ratio and Assessing their Growth Prospect of Telecom Sector Stocks Listed in Nse

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ABSTRACT

The study aims to identify the growth stocks which are having low Price to Earning (P/E) Ratio which are undervalued and having good fundamentals. The sector selected for the research is the Telecom sector. The research involves the fundamental analysis including the Ratios and computing the intrinsic value following the Discounted Cash flow model. The analysis focuses on stocks listed on the NSE, comparing their financial performance against industry standards. Five stocks are selected for the research which are having low Price to Earning (P/E) Ratio and among them the Indus tower is the best stock for the investment as it is undervalued and having the strong fundamentals. Other stocks analysed were overvalued despite good fundamentals.

KEYWORDS: Growth stocks, P/E ratio, Intrinsic Value, Discounted Cash Flow, Ratios, Telecom Sector.

INTRODUCTION

Growth stocks are undervalued stocks with good fundamentals and are having the potential to grow in future. Investors seek this stock for the investment for the huge profit. Sector selected for the Research is the Telecom sector. The criterion for selecting the stock is the Low Price to Earning (P/E) Ratio because in this stock we can earn more by investing less in these stocks. The ratios used for the financial analysis are Return on Equity (ROE), Return on Capital Employed (ROCE), Inventory Turnover Ratio, Debtor Turnover Ratio, Asset Turnover Ratio, and Working Capital Turnover Ratio. Intrinsic value of the stock is calculated by following the Discounted Cash Flow Model to determine whether a stock is undervalued or overvalued. If the market price is lower than the intrinsic value, the stock is undervalued otherwise, it is overvalued.

PROBLEM STATEMENT

Investors often rely on P/E ratios and financial performance to select stocks, but these indicators alone may not provide a complete picture of a stock's valuation. Many stocks appear fundamentally strong but remain overvalued. This study aims to bridge this gap by calculating intrinsic value and comparing it with the current market price to determine the best investment opportunities in the telecom sector.

OBJECTIVES OF THE STUDY

1. Analyse stocks with low Price-to-Earnings (P/E) ratios.
2. Examine the financial performance of selected stocks.

3. Calculate intrinsic value using the Discounted Cash Flow (DCF) model.

SCOPE OF THE STUDY

- The study is related to Indian telecom sector.
- The study is confined to Five telecom companies which are having the Low Price To earning (P/E) Ratios.
- The study mainly focuses on guiding the investors in making decisions (buy, sell) by determine the value of the stocks through fundamental analysis.
- To provide the investor an insight into the performance of companies.

RESEARCH METHODOLOGY

The methodology will be used is quantitative analysis. The data used for the research is secondary data. Time period of the study is the five years(2020-2024). Sector on which research is the Telecom sector.
Data Collection: The study is based on secondary data. The required data has been collected through data base of NSE, journals, annual reports of the companies, books & other on-line sources.
Approaches : Ratios for examining the financial performance, Discounted Cash Flow model for calculating intrinsic value.
Tools Used: Microsoft Excel

GAPS IN THE STUDY

The researchers have focused on the ratios to assess the company's financial position and to determine intrinsic value they have considered the PE ratio which didn't provide the considerable value, they have not considered the Discounted cashflow model for calculating the Intrinsic value and they have not compared the ratios with the industry standard which will enhance the decision-making in selecting the stock for the investment.
Sample size for the stock of telecom sector listed in NSE.

sample size of stocks

Stock Name	P/E Ratio
GTL	5.12
Indus tower	18.28
Suyog telematics	21.14
Nettlinx	30.48
Frog cellsat	36.48
ADC India	40.28
Hathway cabel	42.11
Sar Televenture	46.52
Kore Digital	55.52
OnMobile Global	57.7
Tata communication	61.93
Railtel corporation	62.51
Uniinfo Telecom	68.59

Bharti Airtel	73.75
NELCO	79.63
Avantel	81.07
Bharti Hexacom	89.11
Tejas Networks	144.1

For the analysis 5 stocks of the telecom sector are selected which are having low PE Ratio which are arranged in ascending order and the source to collected data was " screener ".

selected stocks for analysis

SR NO.	NAME OF THE STOCK	PE RATIO
1	GTL	5.12
2	INDUS TOWER	18.28
3	SUYOG TELEMATICS	21.14
4	NETTLINX	30.48
5	FROG CELLSAT	36.48

Among all the stocks of telecom sector these are the stocks which are having the low PE ratio and are arranged in the ascending order. The analysis of the companies is below:

1) GTL

GTL Limited is an Indian venture that provides network services and infrastructure to the communication sector. The company was incorporated on December 23, 1987. Its CEO is Mr. Manoj G. Tirodkar. The market capitalization of GTL is Rs 220 CR. The main services it offers are network planning, designing, and optimization, infrastructure development and management for the telecom operators. In a nutshell, GTL helps the telecom companies to set up and sustain the network systems and infrastructure that facilitate smooth communication services.

Intrinsic value calculation

Common Size Statement of GTL Ltd.

COMMONSIZE STATEMENT					
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
Sales Growth	-	3%	-12%	-4%	8%
Expenses	202%	74%	97%	110%	70%
Other Income	6%	16%	234%	57%	91%
Depreciation	2%	2%	2%	2%	3%
Interest	9%	9%	12%	14%	14%

Projections for 2025 of GTL Ltd.

Particulars	**Average assumption**	**Projection for 2025**
Sales	-1%	199.30
Expenses	110%	220.15
Operating profit		-20.85
Other income	81%	160.87
Depreciation	2%	4.54

Interest	12%	23.20
Profit before tax		112.28
Tax	25%	28.07
Net profit		84.21

Intrinsic value calculated

Projected profit for 2025	84.21
No. of outstanding shares	15.7
EPS	5.36
Average PE (0f 5 years)	0.71
Intrinsic value	3.827
Current Market Price	13.3

Intrinsic value < current market price
Stock is **Overvalued.**

Ratios of GTL Ltd.

RATIO	**2020**	**2021**	**2022**	**2023**	**2024**
ROE	-147%	43%	275%	36%	134%
ROCE	3%	-1%	-7%	-1%	-4%
ASSET TURNOVER RATIO	0.81	1.12	0.88	0.72	0.98
INVENTORY TURNOVER RATIO	268.86	18.22	210.72	5.47	45.97
DEBTOR TURNOVER RATIO	11.39	7.04	9.88	5.62	9.42
WORKING CAPITAL TURNOVER RATIO	-0.03	-0.03	-0.03	-0.03	-0.04

Interpretation:

The ROE for the Year 2024 is 134% which is good which is increased as per the past year. This tell that company is generating good returns for the investors and it has given huge return as compared to the previous year.

ROCE for the past four years is negative which states that company financial position is not good. It also tells that company is not utilising it capital in generating revenue it means that company is having inefficiency in utilising the capital for generating the profit.

Asset turnover ratio has been improving in the past three years which means company efficiency in using it assets to increase sales is improving. This means that company is improving its efficiency in using the assets for generating the profit.

The inventory turnover ratio for the current year is to high as compared to the previous year which means company is facing difficulty in clearing its inventory.

Debtor turnover ratio has been increased as compared to the previous year which means that company efficiency is been increased in collecting the debts. This tells us that company liquidity is also improving which means that company is capable to meets its short-term obligation by its own.

working capital turnover ratio is a measure which tells how well the company is using his working capital to support sales but for the past 5 years it is Negative which states that company is not performing well, and it has to borrow money to meets its obligation.

Recommendation:

This stock is overvalued and going to its fundamental the stock is generating a return to its shareholders, but it is not effectively utilizing it capital in revenue generation the recommendation which I give is not to buy this stock, if you have this in your portfolio than **sell** it.

2) INDUS TOWER :

Indus Towers Limited is one of India's leading telecom tower infrastructure companies. Incorporated on November 4, 2006, this company is listed as a public company and guided by its CEO, Bimal Dayal. The company enjoys a very good market capitalization of Rs 1,13,484 Crore. Its services include the construction, management, and maintenance of towers to make it possible for telecom operators to ensure flawless connectivity. Indus Towers is a very important entity toward improving the telecom infrastructure, which caters to both urban and rural expansions of the network.

Intrinsic value calculation

Common Size Statement of Indus Towers

COMMONSIZE STATEMENT					
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
Sales Growth	-	107%	99%	2%	1%
Expenses	47%	49%	46%	66%	49%
Other Income	27%	9%	2%	0%	1%
Depreciation	19%	20%	19%	19%	21%
Interest	5%	6%	6%	6%	3%

Projections for 2025 of Indus Towers.

Particulars	**Average assumption**	**Projection for 2025**
Sales	52%	43525.97
Expenses	51%	22378.13
Operating profit		21147.84
Other income	8%	3450.95
Depreciation	20%	8581.23
Interest	5%	2193.99
Profit before tax		13823.57
Tax	25%	3455.89
Net profit		10367.68

Intrinsic value calculated

Projected profit for 2025	10367.68
No. of equity shares	269
EPS	38.54
Average PE (0f 5 years)	13.54
Intrinsic value	522.01
Current Market Price	450

Intrinsic value > current market price

This stock is **undervalued**.

Ratios of Indus Towers

RATIO	2020	2021	2022	2023	2024
ROE	178%	140%	236%	76%	224%
ROCE	21%	12%	21%	10%	16%
ASSET TURNOVER RATIO	0.34	0.31	0.58	0.61	0.51
INVENTORY TURNOVER RATIO	12.35	56.05	56.25	210.13	221.23
DEBTOR TURNOVER RATIO	18.36	3.64	3.93	5.83	4.43
WORKING CAPITAL TURNOVER RATIO	5.99	-3.23	7.95	52.10	85.76

Interpretation :

ROE in the year 2024 which the company has given is the highest in the past five years the company providing a good return to the investors and for the investors it is the highly profitable for them to invest in it.

ROCE for the past five years is positive which means that company is efficiently utilizing its capital in profit generation as we can see in the previous year there is decline but once again it is rising which is a good sign for the investors as the company will perform good in future.

Asset turnover ratio is increasing from the FY 2021 to FY 2023 and declined in the FY 2024 and the ratio for the past 5 years Is less than 1 which means company is not using its asset to generate sales.

The Inventory turnover ratio is increasing from the past 5 years, and a good inventory turnover ratio is between 1 to 5 and it is higher than it than it is better. Which mean that company is efficient in clearing its inventory and generating a good return.

Debtor turnover ratio of 7.8 is considered good and for the FY 2024 it is 4.43 which is too low which means company is inefficient to collects it debts.

working capital turnover ratio is greater than 2 except for the FY 2021, but for the remaining it is greater than 2 which states company is not using it working capital efficiently to generate the revenue.

Recommendation:

Recommendation given is “**BUY**” as this stock is undervalued, and it is having a good fundamental, and its ROE is increasing and in this FY 2024 it has given the highest return of 224%. And the ROCE which the company offered is also increasing and the other ratios also depicts that company will perform and grow provide a good return to the investors in the future also.

3) SUYOG TELEMATICS:

Incorporated in the year 1995, Suyog Telematics Limited is a public limited company that offers installation, commissioning, and servicing telecom poles, towers, and optical fiber cable systems spread over 12 telecom circles in India. Registered as Infrastructure Provider Category-I with the Department of Telecommunications or the DoT, the company builds and passes on passive infrastructure assets as rentals to wireless and communications service providers under long-term agreements. Suyog Telematics Company is having big clients like Bharti Airtel, Vodafone Idea, and Reliance Jio with its recurring revenue model by holding long-term contracts. Its market capitalization is Rs 1491 Crore.

Intrinsic value calculation

Common Size Statement of Suyog Telematics

COMMONSIZE STATEMENT					
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
Sales Growth	-	8%	-4%	14%	16%

Expenses	55%	50%	31%	35%	30%
Other Income	1%	2%	4%	6%	5%
Depreciation	6%	12%	17%	18%	20%
Interest	5%	8%	11%	11%	12%

Projections for 2025 of Suyog Telematics

Particulars	**Average assumption**	**Projection for 2025**
Sales	8%	180.47
Expenses	40%	72.59
Operating profit		107.88
Other income	4%	6.47
Depreciation	15%	26.63
Interest	9%	16.84
Profit before tax		70.88
Tax	25%	17.72
Net profit		53.16

Intrinsic value calculated

Projected profit for 2025	53.16
No. of equity shares	1.07
EPS	49.68
Average PE (0f 5 years)	13.04
Intrinsic value	647.9
Current Market Price	1395

Intrinsic value < current market price
This stock is **overvalued**.

Ratios of Suyog Telematics

RATIO	**2020**	**2021**	**2022**	**2023**	**2024**
ROE	325%	240%	395%	442%	594%
ROCE	29%	23%	24%	20%	22%
ASSET TURNOVER RATIO	0.50	0.42	0.35	0.30	0.33
INVENTORY TURNOVER RATIO	60.56	47.58	24.39	27.00	22.76
DEBTOR TURNOVER RATIO	4.56	4.91	4.72	3.54	3.61
WORKING CAPITAL TURNOVER RATIO	13.49	-12.52	14.71	-214.39	18.95

Interpretation:

ROE is increasing from the FY 2021 to FY 2024, and which is providing a good return to the equity shareholders and for the FY 2024 is 594%. And its returns to the shareholders are increasing from the past five years and generating a good return to them.

The ROCE which is offered by the company for the past 5 years is above 20 and which is quite satisfactory the shareholders. Which tells the company decision making in capital allocation in different business is good.

A good asset turnover ratio is greater than 1 but for the last 5 years it is less than 1 which means company is not using its assets efficiently to generate revenue.
In the FY 2024 it has been declined as compared to the FY 2023 , a good inventory turnover ratio is between 5 to 10, for the FY 2024 is 22.76 which tell company is struggling in selling his inventory.
A good debtor turnover ratio is higher than 7.8. but for the past 5 years it less than it which states company is inefficient in collecting its debts from the customers and the clients.
A good working capital ratio is considered 1 to 2 but for the FY 2024 It is 18.95 which is not good, company is not able to generate the revenue from using its short-term assets and liabilities.

Recommendation:

This stock is overvalued and going to the fundamentals it is providing a good return to the investors, but it is facing difficulty in collecting its debt and clearing its inventory and not properly utilising its assets in the profit generation. The recommendation is given to "**sell**" this stock if you have it in your portfolio and not to buy this stock .

4) NETTLINX :

Nettlinx Ltd was founded in the year 1994 as a public limited company. It primarily deals with telecom service sector. The company is engaged in internet connectivity, broadband services, and networking solutions. The company is also working in real estate and green power projects through its subsidiaries in Nettlinx Realty Pvt. Ltd., Nettlinx Inc., and Sri Venkateswara Green Power Projects Ltd. Nettlinx Ltd. offers products from telecom towers to internet lease lines and cloud services catering to different types of customers. The Managing Director of the company is Dr. Manohar Loka Reddy. The market capitalisation is Rs 242 Crore.

Intrinsic value calculation

Common Size Statement of Nettlinx

COMMONSIZE STATEMENT					
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
Sales Growth	-	-24%	-3%	-37%	51%
Expenses	93%	90%	85%	96%	60%
Other Income	3%	0%	1%	6%	0%
Depreciation	1%	3%	3%	5%	3%
Interest	4%	4%	4%	5%	3%

Projections for 2025 of Nettlinx

Particulars	**Average assumption**	**Projection for 2025**
Sales	-3%	31.70
Expenses	85%	26.85
Operating profit		4.85
Other income	2%	0.68
Depreciation	3%	0.96
Interest	4%	1.24
Profit before tax		3.32
Tax	25%	0.83

Net profit		2.49

Intrinsic value calculated

Projected profit for 2025	2.49
No. of equity shares	2.42
EPS	1.03
Average PE (0f 5 years)	-1574.50
Intrinsic value	-1621.62
Current Market Price	450

Intrinsic value < current market price.
This stock is **overvalued.**

Ratios of Nettlinx

RATIO	**2020**	**2021**	**2022**	**2023**	**2024**
ROE	15%	-6%	24%	0	34%
ROCE	7%	5%	8%	2%	21%
ASSET TURNOVER RATIO	0.56	0.58	0.53	0.33	0.41
INVENTORY TURNOVER RATIO	3.76	4.62	12.52	7.59	10.56
DEBTOR TURNOVER RATIO	2.05	8.97	7.22	5.59	1.93
WORKING CAPITAL TURNOVER RATIO	2.20	1.81	2.35	1.60	2.81

Interpretation :

ROE For the FY 2024 the is highest as compared to the 5 years. But ging to its past performance it has not given the good results and in the previous year it has faced the loss and not given the return to the shareholders.

ROCE for the FY 2024 is highest as compared to the 5 years. But when we go to its past performance it is too much bad which means that the company is not good in utilising its capital in profit generation.

A good asset turnover ratio is considered as greater than 1, but for the 5 years it lower than 1 which means company is inefficient in using its asset to generate the sales.

A good inventory turnover ratio is considered as the 5 to 10.Except for the FY 2022 rest are ok and in the FY 2022 it depicts that in that year the company was overstocking which create a problem in marketing and in the retail chain mechanism.

A good debtor turnover ratio is considered greater than 7 , for the FY 2021 & FY 2022 IT is greater than 7 which was good but in the FY 2024 which is 1.93 which is too low and declined from its previous year which means company is inefficient in collecting the debts.

A good working capital turnover ratio is between 1 to 2 and for the 5 years it is good which means company is efficiently using its working capital to generate the revenue.

Recommendation:

This stock is overvalued, and its financial performance is also not so much impressive. The company is generating the returns but going to it completely analysis it is facing the difficulty in collecting its debt which is impaction on its Cashflows and it's in not properly allocating and utilizing its resources in the profit generation. The recommendation which I will is to "**sell**" this stock if you have this in your portfolio.

5) FROG CELLSAT:

Frog Cellsat Limited is an Indian company founded in 2004, primarily engaged in manufacturing and selling telecom equipment. Frog Cellsat Limited is a public limited company, listed on the National Stock Exchange (NSE) under the ticker "FROG". The company's market capitalization is approximately ₹386 crore. As of July 2024, the company does not have a CEO listed, as the former CEO, Pankaj Gandhi, resigned recently. The company continues to focus on enhancing telecommunications infrastructure and supporting various telecom operators with advanced equipment and solutions.

Intrinsic value calculation

Common Size Statement of Frog cellsat

COMMONSIZE STATEMENT					
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
Sales Growth	-	39%	10%	0%	19%
Expenses	93%	91%	85%	83%	87%
Other Income	2%	6%	2%	1%	2%
Depreciation	3%	1%	1%	1%	2%
Interest	2%	1%	0.5%	0.4%	0.3%

Projections for 2025 of Frog Cellsat

Particulars	**Average assumption**	**Projection for 2025**
Sales	17%	184.36
Expenses	88%	161.82
Operating profit		22.54
Other income	3%	4.92
Depreciation	2%	3.34
Interest	1%	1.73
Profit before tax		22.40
Tax	25%	5.60
Net profit		16.80

Intrinsic value calculated

Projected profit for 2025	16.80
No. of equity shares	1.54
EPS	10.91
Average PE (0f 5 years)	15.31
Intrinsic value	166.98
Current Market Price	351

Intrinsic value < current market price.

This stock is **overvalued**.

Ratios of Frog Cellsat

RATIO	2020	2021	2022	2023	2024
ROE	12.28%	23.93%	20.79%	12.95%	10.1%
ROCE	16.44%	31%	33%	18%	15%
ASSET TURNOVER RATIO	1.34	1.45	1.55	0.99	1.01
INVENTORY TURNOVER RATIO	4.55	7.38	5.58	5.31	6.02
DEBTOR TURNOVER RATIO	5.10	4.53	6.77	4.78	5.12
WORKING CAPITAL TURNOVER RATIO	2.23	3.90	3.93	2.20	3.22

Interpretation :

The ROE (return on equity) which declining from the FY 2021 to FY 2024 and in the FY 2024 it is the lowest as compared to all. Which means that company financial position is not good, and it is facing difficulty in generating returns to the shareholders.

The ROCE (Return on capital employed) which also declining and in FY 2024 it is the lowest as compared to the past five years which implies that the company is insufficient in decision making regarding the allocation of capital in the segments of the Business for the profit generation.

A good asset turnover ratio is considered as greater than 1, for all the year it is good which means company is efficiently using its asset to generate the sales. Which implies that company is wisely using its asset to generate sales.

A good inventory turnover ratio is considered as the 5 to 10. For all the years it is good which means company is able to clear his inventory in 1-2 months.

A good debtor turnover ratio is considered greater than 7 , for all the years it is lower than it which means company is inefficient in collecting its debts.

A good working capital turnover ratio is between 1 to 2 for all the years it is greater than 2 which means company is efficient in using its short-term assets and liability to generate the sales.

Recommendation:

The recommendation which I will give is the "**sell**" as this stock is overvalued, and its financial performance is also not good and satisfactory for investing for the investor. As the profit the company is generating is decline in the past five years and it is facing difficulty in the clearing its inventory due to tough competition and not properly utilizing its capital for the revenue generation.

FINDINGS

- With low pe ratios most of the stock are of mid cap stocks.
- Indus tower is the best stock for investment it is undervalued and having the low PE ratio, and its fundamentals are good.
- Companies are having the good fundamental, but they are found overvalued.
- By only seeing the ratios and fundamental, stock cannot be selected for the investment once also check its intrinsic value.
- Most of the companies are providing a good return but they are not properly utilizing its capital which point on its decision-making ability in allocation of the capital.

CONCLUSION:

As the objective of the project was to find the good investment for the investor which is having the low P/E ratio which are undervalued and having the good growth aspect for that the financial performance of the companies were analysed by computing the performance ratios for the 5 years. And also, to compare the ratios with the industry standard for this the telecom industry was selected and after Assessing its Intrinsic value by Following the Discounted Cashflow model and the Ratio Analysis. The INDUS TOWER was the best investment, as we go to its fundamentals which are good, and it is the undervalued as well and its financial position is also good in the industry, and it will grow in the future also. Most of the companies are having the good fundamentals, but they are found overvalued before investing in any stock once check its intrinsic value and compare it with the current market price to know that the stock is undervalued or overvalued. By going to the fundamentals, we cannot pick a stock to our portfolio we have to go for its intrinsic value and compare with its peers in the industry to predicts the future performance of the industry and to enhance our decision-making ability and to come up with a good stock for the investment.

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