How is Prime Stock Ranking done?

#1 How does the stock ranking help you?

Our stock ranking lets you know where a stock stands in relation to other stocks.

- There are hundreds of stocks to consider. Running through them all to find stocks worth pursuing further is hardly a doable task. Prime Stock Ranking helps you separate out the better stocks across sectors and market capitalisations quickly and easily.
- It tells you where the company scores well and where it does not. It allows you to shortlist your stock universe far more easily and quickly.
- It can be used to review stocks you hold, to know whether they are failing in some parameters compared with others.
- It allows you to understand a stock's risk profile by providing data on the stock beta, volatility, and liquidity. In short, you get to see performance score as well as relative risk in one place.

#2 What is the universe of stocks considered for ranking?

Our stock ranking universe covers the Nifty 500 stocks – that is, the largest 500 stocks by free float market cap, representing 93% of the stock market. Of these, the following are left out:

- stocks that do not have sufficient track record of data.
- companies with holding structure, which makes it difficult for us to assess them with metrics used for other companies
- insurance companies due to lack of availability of appropriate metrics from our database

The rating is done separately for banking stocks, for non-banking companies and the rest of the companies – i.e., we have split up the universe into these 3 segments and customized the scoring metrics for each of these.

#3 Is this only quantitative?

Yes, it is purely a quantitative ranking tool. It considers near and medium-term historical performance of companies to arrive at their score relative to other companies.

- This ranking considers metrics in the P&L account, balance sheet, and to measure valuations. The ranking system weights the individual parameters under each of these to arrive at a score for each of the heads that you see in the stock's ranking.
- Liquidity and risk metrics, in addition to the score, are provided to help you get a better idea of the stock's risk profile.
- This data is dynamic and is updated for daily price changes. During results, the ranking will be automatically updated as and when results come for each company. For banking and financial services stocks, however, updations is not system-driven. This is because metrics we use need to be collected manually and individually from company presentations and results reports. There will, therefore, be lags in updating these two segments.
- This rating does not consider qualitative aspects such as corporate governance or moat. Some of these factors do reflect in the quality of a balance sheet and hence get weeded out with just quantitative metrics. But a deeper picture of qualitative aspects such as these and others

such as where growth can come from will require the next level of assessment on your part.

#4 What do the Quality, Growth and Valuation metrics that you have rated denote?

When you analyze a company in terms of numbers, you look at the quality of its balance sheet, its growth and margin strength and whether its price offers a good opportunity to buy now. We have done exactly this with **Quality (balance sheet metrics), Growth (profit & loss and cash flow metrics) and Valuation.**
This splitting serves two purposes:

- one, it lets you know where exactly the company's strength and weakness lies. For example, a company with a sound balance sheet may be showing sedate growth now or a company that is trading cheap may have poor balance sheet quality. This will be clearly pinpointed.
- Second, it lets you focus on where it is weak and allows you to watch if the stock could turn attractive if such parameters change. For example, a company with high quality balance sheet and great growth may be highly valued and a correction could quickly bring this stock up in valuation rankings as well. Watching our ratings will tell you when such changes happen.

We do not have a combined single stock ranking we think it can be misleading. A single combined ranking will hide a stock's relative strength/weakness on different parameters and may also be influenced by one strong metric even as other key factors may remain weak.

#5 What are the factors under each of the 3 rating heads that are analyzed?

There are several financial parameters that go into each of these heads. Some of these require statistical smoothening and normalizing as well. So, there is some element of further analytics that goes into the methodology before it is rated.

- **Growth metrics:** We use P& L metrics such as trailing sales and profit growth as well as the growth in the moving average of the annual numbers to capture trends. Then there are metrics to measure profit margins and operating cash flow strength.

- **Quality Metrics**: In balance sheet, metrics such as the return on equity and on capital employed, working capital related ratios, efficiency ratios, debt and debt servicing related metrics are considered. For banking and finance stocks, these metrics (and those in Growth) will be different – like capital adequacy and non-performing assets for Quality and net interest income and margins for Growth.
- **Valuation metrics**: We use metrics such as price to earnings, free cash flows, and where PE stands in relation to its historical average. Here too, the banking and finance stocks have a different set of metrics such as price to book instead of price-to-earnings.

This is not an exhaustive list of the metrics we use. It gives you an idea about what we analyze. Every metric under each head is weighted based on which factors matters more. Do note that the ranking is separately done for banking and for finance stocks. So, a banking stock with a score of, say, 95 cannot be compared with a manufacturing company with the same score.

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