How to use the stock ranking

A stock's ranking tells you how a stock fares on three broad aspects – the quality of its financial strength, the growth it has clocked, and its valuations – compared to other stocks. It's a great way for you to know how strong a stock you're interested in is, and if you should continue to pursue it further.

Understand the reasons for a stock's score

Every stock is scored on Quality, Growth, and Valuations. Please see the section on 'How stock ranking is done' for an explanation of the ranking methodology. For you to better understand a stock's score:

- **For every stock, we list the key metrics that the ranking uses in each parameter. You will find this list if you hover over the Quality/Growth/Valuation scores.** In Quality, for example, ROE, receivables ratios, or debt levels are important metrics. In Growth, it is revenue and PAT growth, or operating profit margin. This is not the full list of metrics we consider in the ranking – we show the more important among them.
- In every one of these metrics, we show how the stock fares compared to others. A green highlight indicates that the stock well above the average in that metric. Orange shows that the stock is around the average – just above or just below. Red means that the stock is among the worst on that metric. For example, if ROE shows green for a stock, it implies that the stock is better than most in its ROE. This will give you an understanding of where a stock is doing better or worse than others.
- A stock can have a mix of performance on these metrics. The more the 'green' metrics, the better the stock's score, and the more the 'red' metrics, the poorer the score.
- Do not directly correlate the number of green, orange, or red metrics with the stock's ranking. We weight each metric based on its importance to arrive at the score. So, while a stock may have multiple 'green' indicators and few 'red' or 'orange' ones, it could still have only an average score if the red/orange metrics carry a higher weight in the overall score. Second, we have listed only the top metrics. But for the actual score we use a more exhaustive list of metrics not listed here. The stock's score will be a factor of these as well.

How do you interpret and use a stock's ranking?

A stock's score or rank tells you where a stock stands in relation to other stocks. It will shape the direction in which you can further analyse a stock.

- If a stock is within the top quartile in all three parameters of Quality, Growth, and Valuation, it tells you that the stock is financially strong, has clocked good growth in revenue and profit, and is reasonably valued. It could therefore be worth a qualitative and deeper analysis to understand more about prospects and if it is worth an addition to your stock watchlist.
- A perfect combination like above will be tough to come by – but comparing individual parameters will tell you more about the nature of the stock. If a stock is in the top two quartiles in Quality but lower on the Growth parameter, then you could look into the reasons behind the slower growth and if things could turn around for the company. A high Growth or Quality score and a low Valuation score could be indicators that you need to wait for a correction to pick the stock. A lower Quality score can be a red flag no matter how strong the Growth or Valuation scores are.
- The breakdown of metrics within each parameter will offer further pointers on where exactly a stock is winning or is deficient. Analysis along these lines will help you identify triggers and risks better. Information on the beta, volatility, and liquidity will tell you how risky a stock can be.
- **Combining the stock ranking along with the filters provided in our Prime Stock Screener tool will allow you to shortlist and analyse stocks** across sectors and market-cap segments with ease, backed by comprehensive data and relevant metrics.

Risks and Liquidity Data

Apart from the rankings we have given for Quality, Growth and Valuation, we have provided additional data on a stock's standard deviation, beta and liquidity to allow you to assess the stock's risk. Here's how to understand these measures:

- **Standard deviation:** It is the deviation of a stock's daily price movement from it's own average. A stock with a higher standard deviation suggests that it is more volatile – that can be on the upside or downside. But you will know that such a stock is more subject to swings when markets move up or down.
- **Beta:** This is also a measure of risk but unlike standard deviation it is compared with the price movement of the market (Nifty 500 in this case). Beta looks at the response of a stock's price movement to the market's movement.

When a stock's beta is higher than the rest, it means (based on historical data) it has beat the index by a higher margin in rallies and fell harder than the index in a market slide.

- **Liquidity**: This shows the average turnover of the stock traded. A higher turnover provides comfort that you can buy and sell a stock without too much impact cost or the price swinging wildly.

What the Stock Ranking is not

Prime Stock Ranking is a tool to tell you in a single glance where a stock wins and where it is losing. **It is not our research view on a stock, and not a buy, sell, or hold call. It is also not the only basis by which we recommend stocks in Prime Stocks.**

Prime Stock Ranking is a tool that's best used by DIY stock investors who wish to get an objective view of stock fundamentals, get the groundwork in stock analysis done using data that's not easily available, before executing their own analysis.

Quick reckoner on metrics displayed

For every stock, we list a few of the key metrics that the ranking uses under Quality, Growth and Valuation parameters and colour-code how the stock fares on these metrics. A brief on these metrics is as follows:

Quality metrics	
Interest cover	The times by which operating profits cover interest payments. Higher the better.
ROE	Return on Equity. Net profits as a proportion of shareholder's funds. Higher the better.
ROCE	Return on Capital Employed. Profits as a proportion of shareholder's funds plus debt. Higher the better
Asset turnover	The efficiency with which the company uses its assets to generate sales. Higher the better
Debtor to sales ratio	The proportion of sales that are yet to be realized in cash. Lower ratio indicates efficient collection
Debt to equity ratio	The level of indebtedness of a company. Lower the better
Cash conversion cycle	The period of time it takes to convert inventory into sales. Shorter cycles indicate efficiency

	Quality metrics
Stage 3 assets	The share of assets in an NBFC that have higher evidence of credit loss; in most cases, this will be as of the year-end figures
Credit rating	Credit rating of an NBFC for long-term debt. Better credit ratings indicate better financial strength
Loan book size	Size of the full loan book. Larger NBFCs could be less vulnerable
CASA	Share of current and savings accounts in total deposits of a bank. A higher share indicates cheaper cost of funding
CAR	Capital adequacy ratio. Higher CAR helps cushion NPAs and expand loan book
GNPA and NNPA	Gross and net percentage of non-performing assets
Loan book growth	Growth in loan assets given out by banks and NBFCs
	Growth metrics
3-year moving average sales growth	Considers average sales over a 5-year period to smooth out year-to-year fluctuations. Higher growth is preferred
3-year moving average PAT growth	Considers average PAT over a 5-year period to smooth out year-to-year fluctuations. Higher growth is preferred
Operating cash flow to EBITDA	Share of EBITDA realized in cash. Higher share indicates that profits are real and less vulnerable to financial jugglery.
Trailing year sales growth	Year-on-year growth in trailing 12-month sales
Trailing year PAT growth	Year-on-year growth in trailing 12-month PAT
Latest 4-quarter average EBITDA margin	Measures current operating profitability. Higher the better
Total income growth	Average growth in total income of NBFCs
Cost-to-income ratio	Measures operating efficiency of a bank, or the operating expenses as a proportion to income. Lower the better
NII growth	Growth in net interest income for banks & NBFCs
Net interest margin	Net income of banks & NBFCs after interest payouts as a proportion of total interest income. Higher NIMs indicate better profitability

	Valuation metrics
Current PE vs 3-year average PE/ Current PB vs 3-year average PB	Measures how much the stock's current PE/PB deviates from its own historical average. The extent of deviation is then compared with the rest of the universe
Marketcap to interest earned	Ratio between full market capitalization to current interest income of banks & NBFCs
EV/FCF	Ratio of Enterprise Value to Free Cash Flows, a metric that's more reflective of real profitability and valuations than just the PE multiple
Average PE	Average PE multiple for the past 1/3 months
Average PB	Average PB multiple for the past 1/3 months