International Journal of Engineering, Management and Humanities (IJEMH)
Volume 6, Issue 1, Jan.-Feb, 2025 pp: 304-309 ISSN: 2584-2145 www.ijemh.com

An analysis of top Value stocks in the Indian equity market in 2024

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Date of Submission: 12-02-2025 Date of Acceptance: 25-02-2025

Abstract

Various techniques and strategies are applied by investors to achieve superior gains from equity market. Based on the investment objectives, the stocks can be classified into three main categories: Dividend, Value stocks and Growth stocks.Value stocks are those stocks that trade at low prices compared to the fundamentals of the listed company.Value Investing is the process of finding underpriced stocks, buying them, and holding them for the long-term until the market sees the value in the company.This study focuses on analysing the performance of Value stocks across sectors and time horizons, to give a clear investment picture to investors.The study has considered 10 value stocks of 2024. The TTM P/E and YTD return of selected value stocks of 2024 was calculated to check whether the stocks are fundamentally good.The mean 1Y return of 10 stocks was -12.083%, mean 3Y return was 30.358% and the mean 5Y return was 296.975%.While value stocks have a track record of outperforming markets in the long run for all practical purposes, investors are advised to adopt a blended approach of investing where a mix of growth and value stocks are included in the portfolio.

Keywords: Value stocks, small cap, dividend, returns, valuation ratios

I. Introduction

Various techniques and strategies are applied by investors to achieve superior gains from equity market. Based on the investment objectives, the stocks can be classified into three main categories: Dividend, Value stocks and Growth stocks. Dividend stocks (or Income stocks) are stocks of established companies that provide a stable source of dividend. Value stocks are those stocks that trade at low prices compared to the fundamentals of the listed companywhereby growth stocks are those stocks that trade at high prices compared to the fundamentals of the listed company (Fama & French, 1993, 1998; Lakonishok et al, 1994; O'Shaugnessy, 2005; Peterson, 2007; Pinto et al, 2010). Growth stocks have a growth rate that typically beats the overall market whereas Value stocks will provide good returns in future.

Value Investing is the process of finding underpriced stocks, buying them, and holding them for the long-term until the market sees the value in the company. Such stocks are usually smaller companies as they have a greater potential to see a large increase in their share prices. These companies usually have a relatively low price-to-earnings (P/E) ratio, below book value (P/B), or even below cash value. A good Value stock will have a long investment horizon, less risky than growth stocks, undervalued, less growth potential than growth stocks, mid to large-cap companies, which pay good dividends. Value stocks are cheap in terms of valuation.

Indian equity market has been highly volatile. Hence investors are relying on dividend yielding and value stocks compared to riskier growth stocks. With the market corrections from time to time also, only the dividend yielding value stocks have gained investor attraction in India. Banking scams and defaulting business, have kept the investors away from growth investing recently. The best value stocks are seen to respond to tough economic times by doing their best to maintain, or even increase their payouts. Value stocks come with lower prices than other stocks. They have low price-to-earnings and price-to-book ratios, making them less expensive than other stocks. And at the same time, they may also pay dividends. In value investing, an investor has to study the fundamentals of the company and determine if the company can recover in future and give good returns over a long period.

II. Review of Literature

The following Journal papers discuss value investing in Indian and International Markets.

Suresh K. Mittal and Rakesh Kumar (2014)identified the major indicators of value investing and found that price to earnings (P/E) and price to book value (P/B) are the major indicators to construct value stock portfolio. They also analysed the performance of value and growth investing and result confirmed that value stock outperformed the growth stocks globally in the long run. **YadavGopal** (2014) did a comparative study between the growth stock returns and Value stocks returns and found that the returns from Value stocks are better than Growth stocks.**Kamath Vani (2013)** reported that in stock market trading, the equity investors always consider value stocks superior to growth stocks. The various theories on equity market investment also consider this. This research paper makes an attempt to compare both the value and growth stocks for the period of five years on the basis of Earnings per Share. Earnings per Share is very crucial for any investor as it decides the return on investment. The study concludes that in the long run Growth stocks give good and progressive returns compared to that of value stocks.

Gonenc, Karan (2003), presents the comparison of returns between value and growth, and also between small and large capitalization portfolios for an emerging market, the Istanbul Stock Exchange (ISE). It shows that growth portfolios have performed comparatively well with respect to value portfolios. Thus, the result obtained doesn't substantiate the authentication from the most developed and emerging markets. **Yen, Sun, Yan (2004),** explores value stocks and growth stocks in Singapore, examines the value premium up to five years after the value and growth portfolio emergence. The findings of the study firstly reveal that, there is a value premium for Singapore stocks; still the premium is intensive in the initial two years post portfolio formation. Later it focuses on the earnings growth which is remarkably overrated for growth stocks but it is not underrated for value stocks, indicating an over-reaction.**Fama.F& French. R (2019),** focused on the value and growth stocks anatomy, here the average returns on value and growth portfolios are broken into dividends and three sources of capital gain i.e growth in book equity, primarily from earnings retention, convergence in price-to-book ratios (P/Bs) from mean reversion in profitability and expected returns, and upward drift in P/B during 1927–2006. For growth stocks, convergence is negative: P/B falls because growth companies do not always remain highly profitable with low expected stock returns. Relative to convergence, drift is a minor factor in average returns. The differences between average growth rates of P/Bs for value and growth portfolios are thus mostly a result of convergence.**Bauman W, Conover C & Miller E** (2019), revealed that value-stock approach surpasses growth-stock approach in U.S. stock markets. For international stock markets, nevertheless little published research exists on this concern. Using four kinds of valuation ratios to describe value stocks and growth stocks for more than 28,000 return consideration in 21 countries over a 10-year period, it is found that value stocks normally outperformed growth stocks on a total-return groundwork and on a risk-adjusted basis for the period and in a majority of the national markets as well as in many years. The study also reveals that when the growth stocks outperformed, the margin of difference considered was small. It also found a strong firm-size effect. In addition, value stocks outperformed growth stocks in all firm capitalization-size class excluding the smallest.

Results of these studies show that value stocks are likely to generate higher total return and higher outcomes on risk-adjusted measures than growth stocks both in national and international markets.

Research gap

Previous studies on value and growth stocks have covered different financial markets, such as global markets (e.g., Bauman et al, 1998; Fama & French, 1998), developed domestic markets (e.g., Bird & Casavecchia, 2007; Cahine, 2008), and emerging markets (e.g., Gonenc& Karan, 2003; Yen et al 2004). Most scholars suggest that portfolios containing value stocks have the tendency to outperform portfolios containing growth stocks over extended periods of time. In addition, various scholars, including Fama & French (1998) and Bourguignon & De Jong (2003), contend that the outperformance of value stocks upon growth stocks only exists for longer periods of time. This indicates the need for a study across sectors and for short and long time horizon in the Indian context. This study focuses on analysing the performance of Value stocks across sectors and time horizons, to give a clear investment picture to investors.

Objectives of the study

a) To analyse the return of Value stocks in Indian market in the short and long term.

b) To calculate the Valuation ratios of Value stocks.

Hypothesis

H0: There is no significant difference in mean returns of Value stocks in short and longtime horizon

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H1: There is a significant difference in mean returns of Value stocks in short and long-time horizon

III. Methodology

The data in the value stocks list is dynamic and subject to real-time changes. This data was derived on 23rd December 2024 from Nifty 500 stocks, ranked on the basis ofPrice to Intrinsic Value. Daily closing prices of the stocks were collected. The data for the calculation of valuation ratios of the companies was collected through CMIE Prowess Database.

The study has considered 10 value stocks of 2024. The TTM P/E and YTD return of selected value stocks of 2024 was calculated to check whether the stocksare fundamentally good.

P/E ratio stands for share price dividend by Earnings per share (EPS). The TTM ratio stands for Trailing Twelve Months, which means the last 12 months of EPS are used in the calculation. YTD return is the amount of profit (or loss) realized by an investment since the first trading day of the current calendar year. YTD calculations are used by investors to compare the recent performance of a number of stocks.

Stocks with high earnings' growth rates at inexpensive valuations within a particular industry are good investments. Such stocks are value stocks. It is important to note that the essential quality is the visibility of earnings' growth and availability at reasonable valuations. Stocks with TTM PE less than the industry average PE are considered inexpensive.

IV. Analysis and Findings

10 stocks which were available at discounted price in 2024 were considered for the study. On analysis it was confirmed that 6 of these stocks had their TTM P/E lesser than Industry P/E. All stocks had a low PB ratio (Table 2).Hence, they could be considered as value stocks at first instance. Out of 10 stocks, 7 stocks where small cap stocks (Table 1).

Sr.No	**Company**	**Industry**	**Market Cap (Cr.)**	**Market Cap**	**Market Price (Rs.)**	**52 week high (Rs.)**	**52 week low (Rs.)**
1	Raymond Ltd	Real Estate Management & Development	8,964.84	Smallcap	665.95	1,204.65	631.9
2	Adani Enterprises Ltd	Capital Goods	96,721.27	Largecap	805.15	1,348.00	588
3	Great Eastern Shipping Company Ltd	Energy	13,593.58	Smallcap	952.15	1,543.70	890
4	Adani Energy Solutions Ltd	Utilities	1,70,790.38	Largecap	1,078.20	2,174.10	870.25
5	Rajesh Exports Ltd	Consumer Durables & Apparel	10,635.92	Smallcap	1,598.15	2,380.00	960.22
6	Adani Green Energy Ltd	Utilities	8,983.64	Largecap	1,651.30	2,747.85	1,513.00
7	Sterling and Wilson Renewable Energy Ltd	Capital Goods	13,977.40	Smallcap	2,003.30	2,975.00	1,318.20
8	Tanla Platforms Ltd	Software & Services	6,178.61	Smallcap	209.26	370	203.65
9	CE Info Systems Ltd	Software & Services	2,76,980.29	Smallcap	2,399.80	3,743.90	2,025.00
10	Bombay Burmah Trading Corporation, Ltd	Food, Beverage & Tobacco	9,617.63	Smallcap	411.9	828	403.35

Table 1: Details of Market cap and 52-week performance of selected stocks

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Out of 10 stocks, 6 stocks had a dividend payout. Highest dividend yield was 4.6 from energy sector. Highest ROE (%) was from the Consumer Durables & Apparel sector (Table 2).

Sr.No	Company	PE ratio	Industry PE	PB ratio	Div. Yield (%)	ROE (%)
1	Raymond Ltd	16.35	34.69	4.62	1.8	31.7
2	Adani Enterprises Ltd	85.05	21.3	7.06	0	8.56
3	Great Eastern Shipping Company Ltd	5.2	12	1.1	4.6	23.06
4	Adani Energy Solutions Ltd	155.26	21.3	9.79	0	8.87
5	Rajesh Exports Ltd	6.49	37.28	2.1	0.63	40.74
6	Adani Green Energy Ltd	67.06	34.69	13.62	0.21	22.29
7	Sterling and Wilson Renewable Energy Ltd	20.42	49.57	2.1	0.06	10.98
8	Tanla Platforms Ltd	18.41	37.28	0.41	0	2.24
9	CE Info Systems Ltd	85.5	44.93	6.27	0.05	7.89
10	Bombay Burmah Trading Corporation, Ltd	-42.38	44.93	10.07	0	-59.3

Table 2: Valuation ratios of selected stocks

Not all these stocks gave positive YTD or high earnings' growth (Table 3). Only 2 stocks gave positive 1Y returns. 6 stocks showed better performance in 3Y returns compared to 1Y returns. 5 of the selected stocks gave positive returns in 3Y returns. 8 stocks gave higher 5Y returns compared to 3Y Returns. Hence it is found that Value stocks perform well in the long run. Only one small cap stock in Software & Services sector could not give positive returns even in 5Y returns.

Sr.No	Company	1Y Returns (%)	3Y Returns (%)	5Y Returns (%)
1	Raymond Ltd	-43.41	-63.82	908.25
2	Adani Enterprises Ltd	-23.36	-60.59	137.47
3	Great Eastern Shipping Company Ltd	-1.51	197.18	175.59
4	Adani Energy Solutions Ltd	-31.36	-44.38	444.41
5	Rajesh Exports Ltd	47.42	248.68	286.52
6	Adani Green Energy Ltd	-19.21	-3.91	18.49
7	Sterling and Wilson Renewable Energy Ltd	24.70	76.15	77.30
8	Tanla Platforms Ltd	-42.20	-77.40	-70.50
9	CE Info Systems Ltd	-17.69	29.77	959.28
10	Bombay Burmah Trading Corporation, Ltd	-14.21	1.90	32.94

Table 3: Short and long run Return calculation of selected stocks

A One-way ANOVA Test was performed to check if there is a significant difference in the performance of value stocks in the short and long run.

H0: $\mu 1 = \mu 2 = \mu 3$ ("Three population means are equal")

H1: The population means are not equal

Descriptives

Returns

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	95% Confidence Interval for Mean Upper Bound	Minimum	Maximum
1Y	10	-12.0830	28.82771	9.11612	-32.7051	8.5391	-43.41	47.42
3Y	10	30.3580	112.50386	35.57685	-50.1224	110.8384	-77.40	248.68
5Y	10	296.9750	365.89175	115.70513	35.2318	558.7182	-70.50	959.28
Total	30	105.0833	255.12855	46.57989	9.8168	200.3499	-77.40	959.28

Test of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Returns	Based on Mean	11.512	2	27	.000
	Based on Median	5.161	2	27	.013
	Based on Median and with adjusted df	5.161	2	10.538	.027
	Based on trimmed mean	10.252	2	27	.000

ANOVA

Returns

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	561342.368	2	280671.184	5.714	.009
Within Groups	1326284.347	27	49121.642		
Total	1887626.715	29			

Table 4: ANOVA test of significance of Mean returns in the short and long run

Levene Statistic with sig 0.000 shows that there is no homogeneity of variances among the 3 groups.From the ANOVA table, the p value (0.000) is lesser than significance level (0.05), there is very strong evidence against null hypothesis, and we can conclude that the mean return of stocks in the 3 analysis periods is differ significantly i.e. the mean return of stocks in the 3 analysis periods are not equal. Funds in 5Y have recorded more returns than the 3Y and 1Y analysis.The mean 1Y return of 10 stocks was -12.083%, mean 3Y return was 30.358% and the mean 5Y return was 296.975%.

V. Conclusion

It is possible to identify several stocks where the TTM PE is less than the industry average PE. However, not all stocks that fall in this list can be good value propositions. Fundamentals need to be strong and the financials of the stocks under consideration should be healthy. Hence it is important that the investor analyses, whether value stocks really give higher earnings return in the long run.

Investors have to be smart to identify value stocks and refrain from investing in any stocks that have underperformed.With rich valuations and sharp run up, there is little margin of safety left in the growth stocks, thus making a strong case for value stocks. Also, value stocks will tend to fall less in case we see a market correction happening. While value stocks have a track record of outperforming markets in the long run for all practical purposes, investors are advised to adopt a blended approach of investing where a mix of growth and value stocks are included in the portfolio. This blended approach will ensure capturing holistically the opportunities that are offered by the markets.

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