

Evaluating Stocks from Telecommunication Sectors Using Fundamental Criteria

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Abstract

Analysis of telecommunication stocks based on fundamental factors is a key process in assessing financial performance and measuring intrinsic value. The research compares the three Telecommunication Industry companies (Vodafone Idea, Bharti Airtel and TATA Communication) over five years from 2019 to 2023. Four main financial ratios, Net Profit Ratio, Debt-Equity Ratio, Earnings Per Share (EPS), and Return on Investment (ROI), were derived for all three companies to judge their overall financial performance. The intrinsic worth of each of the company's stock was then calculated and compared to its market price to analyze whether the stocks are undervalued or overvalued. The study is very informative about the financial condition and stock valuation, which helps investors make the right decisions.

Keywords: Stock Evaluation, Fundamental Analysis, Financial Ratios, Net Profit Ratio, Debt-Equity Ratio, Earnings Per Share (EPS), Return On Investment (ROI), Intrinsic Value, Undervalued Stocks, Overvalued Stocks, Automobile Industry, Telecommunication Industry, Textile Industry, Financial Performance, Stock Valuation.

Introduction

Fundamental analysis of stock valuation is an investment decision-making pillar that enables investors to obtain information on a company's financial position and underlying value. It is vital to know whether a stock is overvalued or undervalued in the rapidly changing financial world. This research seeks to determine the financial performance and intrinsic value of some companies from telecommunication sectors between the years 2019 and 2023 for a five-year period.

The companies considered here are Vodafone Idea, Bharti Airtel and TATA Communication from Telecommunication industry. To reach the goals of the study, four basic analysis were done for each of these companies. Financial ratios are pivotal markers of profitability, financial health, shareholder value, and investment effectiveness.

By calculating the intrinsic value of these stocks and comparing it with their market prices, the research assesses whether they are undervalued or overvalued. This assessment not only informs us about the financial performance of these firms but also offers useful insights for investors looking to maximize their investment strategies in various sectors. This introduction provides the basis for a thorough analysis of the chosen firms, with an emphasis on their financial indicators and market positioning.

Statement of Problem

Does the research offers investors professional guidance on choosing the most appropriate stock for long term investment and comparing stocks across different sectors with the help of proper indicators?

Objectives

- To help potential investors in making their investment-related decisions with respect to the company's stocks.
- To obtain a comprehensive understanding of current trends and advancements in various sectors through the application trend analysis.
- To evaluate the financial performance of different companies based on ratio analysis.

Significant of Study

Choosing the topic of evaluating stocks from different sectors using fundamental criteria allows for a comprehensive analysis that considers the financial health of companies alongside market trends and investor sentiment. Exploring fundamental analysis methods helps to develop a holistic approach to stock assessment, blending quantitative and qualitative insights to make informed investment decisions. Opportunity to enhance your analytical skills in fundamental analysis, translating theoretical knowledge into practical investment strategies

Review of Literature

Bazyliiev Viacheslav Viktorovich's (2024) fundamental stock analysis provides investors with a comprehensive approach to evaluating the intrinsic value of a company by focusing on both its internal performance and external environment. By examining financial data, growth trends, and market conditions, investors can gauge whether a stock is underpriced or overpriced relative to its true worth. This methodology helps investors make informed decisions about where to allocate their capital, reducing the reliance on speculative or short-term market fluctuations. Ultimately, fundamental analysis aims to build a foundation for long-term investment strategies that are grounded in financial health and potential for sustainable growth.

Runjia Yang, Beining Shi's (2023) study presents an analytical approach to sector rotation by integrating both factor models and fundamental metrics. It begins with a systematic classification of sectors and an empirical analysis of their returns. The study emphasizes the role of momentum and short-term reversion in influencing sector shifts. A comprehensive fundamental analysis is then conducted, evaluating key metrics such as PE, PB, EV-to-EBITDA, and Dividend Yield. The main contribution is the development of a predictive framework based on these indicators, which, after rigorous training, demonstrates strong predictive capabilities. The findings provide valuable

insights into sector rotation strategies, offering implications for asset management and portfolio construction in the financial industry.

Yevi Dwitayanti, Ertawan Juliadi, A. Ratna Sari Dewi's (2023) research examines the relationship between stock fundamental analysis and investment decision-making in Indonesia's dynamic stock market using a mixed-methods approach. Quantitative data from surveys and financial indicators, alongside qualitative insights from interviews, reveal that 75% of investors incorporate fundamental analysis into their strategies, with utilization rates of 70%, 80%, and 85% among retail investors, institutional investors, and analysts, respectively. Regression analysis confirms a significant positive correlation ($\beta = 0.25$, $p < 0.05$) between fundamental analysis use and investment success (adjusted $R^2 = 0.48$). The study also identifies key influencing factors, such as regulatory changes, economic indicators, and market volatility. The study provides actionable insights for investors and policymakers to improve decision-making and regulatory frameworks in the Indonesian stock market.

George D Abuselidze, Anna N Slobodanyk's (2021) paper explores the concept and implementation stages of fundamental analysis, focusing on its application in valuing securities of corporate issuers. The authors analyze the Ukrainian stock market infrastructure, the poultry industry sector, and the financial condition of "Myronivsky Hlibo product" PJSC. By collaborating with experts in fundamental analysis, they determine the fair value of the company's shares and provide recommendations for improving securities valuation. The paper highlights the importance of fundamental analysis in assessing the value of company securities, especially in the context of market development and new companies entering public trading. It emphasizes the efficiency and relevance of fundamental analysis for investors, particularly in uncertain market conditions. The study also reveals that the analysis incorporates various factors such as company income, market position, and economic and industry conditions. Ultimately, the research confirms that fundamental analysis remains a critical method for evaluating investment opportunities and determining the true value of securities.

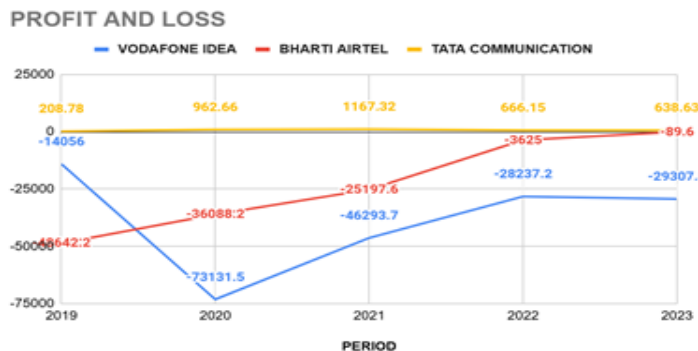
Shveta Singh, Surendra S Yadav, Shveta Singh, Surendra S Yadav's (2021) Study provides a successful investment strategy relies on the ability of an analyst to identify securities that can deliver desired returns at an acceptable level of risk. This involves purchasing securities at lower prices and selling them when their value increases. The chapter focuses on fundamental analysis, which helps in identifying intrinsically sound securities capable of generating returns. The next chapter will address technical analysis, which is used to determine the optimal timing for buying or selling a security. Both types of analysis are essential for selecting appropriate financial instruments based on an investor's risk-return profile.

Methodology

- Source of data : The study relies on secondary data collected from reliable financial websites, which include historical financial statements, stock prices, and other relevant financial data
- Fundamental Analysis :The phase involves evaluating the intrinsic value of the selected stocks using fundamental analysis to compare it with current market price to know whether they are undervalued or overvalued
- Trend Analysis : Five years financial statements are analyzed to understand the trends of each company

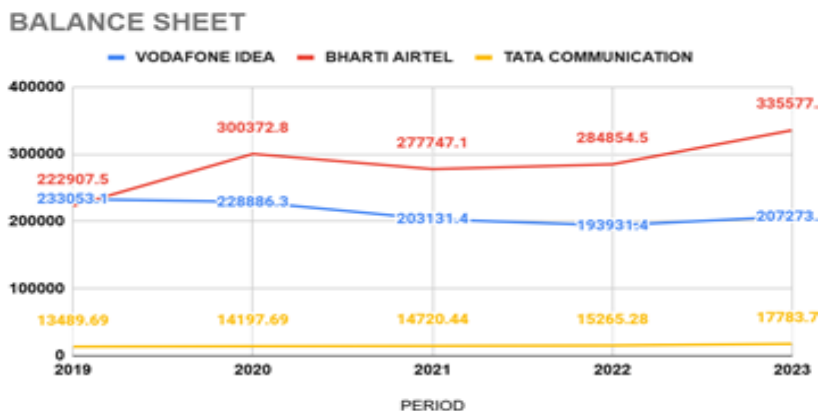
Results and Discussion

Graph 1 Profit & Loss of the Company



Vodafone Idea consistently reported significant losses, peaking at Rs. 73,131.5 crore in 2020 and slightly improving to Rs. 29,307.8 crore in 2023, indicating ongoing financial distress. Bharti Airtel also faced heavy losses, with Rs. 48,642.2 crore in 2019, but showed strong recovery, reducing its losses to Rs. 89.6 crore in 2023, signaling financial stabilization. In contrast, Tata Communications maintained profitability throughout, with profits rising from Rs. 208.78 crore in 2019 to Rs. 1,167.32 crore in 2021, experiencing a minor dip to Rs. 666.15 crore in 2022, before stabilizing at Rs. 638.63 crore in 2023, reflecting a strong and sustainable business model.

Graph 2 Balance Sheet of the Companies



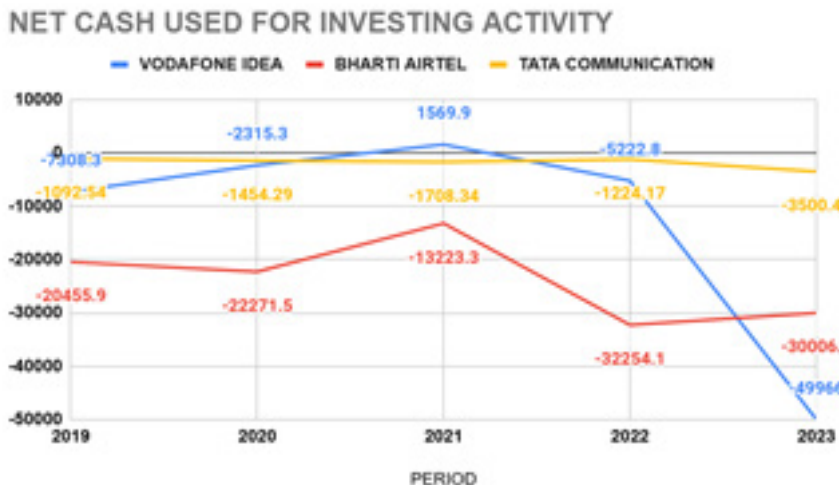
Vodafone Idea's total assets declined from Rs. 2,33,053.1 crore in 2019 to Rs. 2,07,273.1 crore in 2023, indicating asset erosion, likely due to financial struggles and debt repayment. Bharti Airtel, on the other hand, showed consistent asset growth from Rs. 2,22,907.5 crore in 2019 to Rs. 3,35,577.2 crore in 2023, reflecting expansion and improved financial stability. Tata Communications also exhibited steady asset growth, increasing from Rs. 13,489.69 crore in 2019 to Rs. 17,783.73 crore in 2023, indicating business expansion, though at a smaller scale compared to its peers. This suggests that while Vodafone Idea is struggling, Bharti Airtel and Tata Communications are strengthening their financial positions over time.

Graph 3 Net Cash Flow Used From Operating Activity of the Companies



From 2019 to 2023, Vodafone Idea's net cash flow from operating activities showed significant improvement, rising from Rs. 5,207.9 crore in 2019 to Rs. 18,366.1 crore in 2023, indicating better cash generation despite ongoing losses. Bharti Airtel exhibited strong and consistent growth in operating cash flow, increasing from Rs. 10,812.1 crore in 2019 to Rs. 43,582.6 crore in 2023, reflecting enhanced operational efficiency and revenue generation. Tata Communications also demonstrated steady growth, with operating cash flow rising from Rs. 1,108.04 crore in 2019 to Rs. 2,105.93 crore in 2023, showcasing stable business operations. While Vodafone Idea has improved its cash generation, Bharti Airtel leads with the highest cash flow, reinforcing its financial strength, whereas Tata Communications maintains steady but relatively lower cash flows.

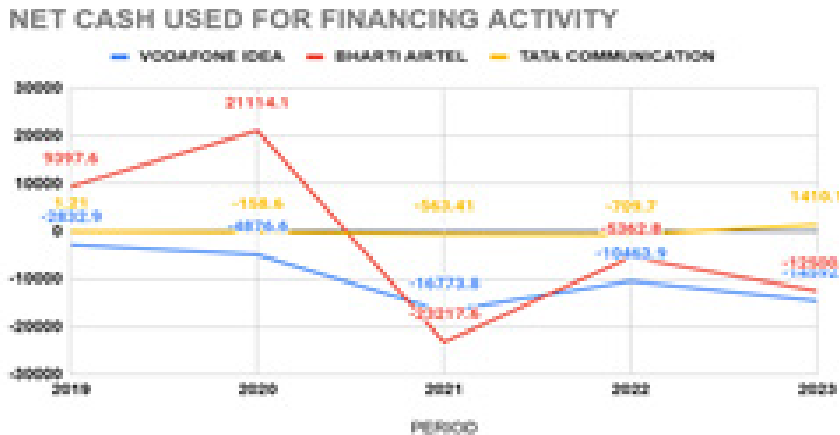
Graph 4 Net Cash flow Used From Investing Activity of the companies



From 2019 to 2023, Vodafone Idea's net cash flow from investing activities fluctuated, with a notable inflow of Rs. 1,569.9 crore in 2021, but overall, heavy outflows were observed, peaking at Rs. 49,966 crore in 2023, indicating significant capital expenditures or asset sales. Bharti Airtel consistently recorded high outflows, increasing from Rs. 20,455.9 crore in 2019 to Rs. 32,254.1 crore in 2022, before slightly improving to Rs. 30,006.3 crore in 2023, reflecting

aggressive investments in network expansion and technology. Tata Communications had lower but stable outflows, ranging from Rs. 1,092.54 crore in 2019 to Rs. 3,500.47 crore in 2023, suggesting continuous but moderate capital investments. Overall, while all three companies invested heavily, Vodafone Idea's sharp increase in outflows in 2023 signals urgent financial adjustments, whereas Bharti Airtel and Tata Communications demonstrate strategic long-term investments.

Graph 5 Net Cash flow Used From Financing Activity of the companies



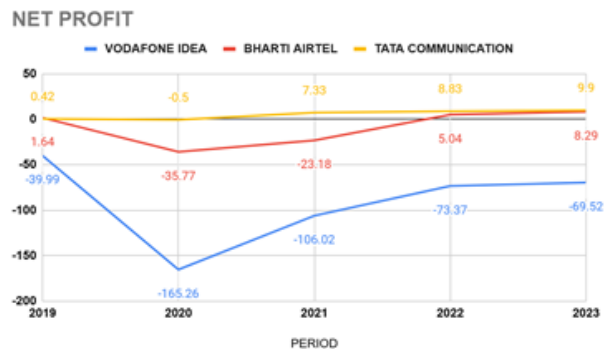
From 2019 to 2023, Vodafone Idea consistently reported negative cash flows from financing activities, with outflows increasing from Rs. 2,832.9 crore in 2019 to Rs. 16,773.8 crore in 2021, improving slightly to Rs. 14,592.9 crore in 2023, likely due to debt repayments or reduced external financing. Bharti Airtel showed mixed trends, with positive cash flows of Rs. 9,397.6 crore in 2019 and a peak inflow of Rs. 21,114.1 crore in 2020, possibly from fundraising efforts, followed by consistent outflows, reaching Rs. 12,500.4 crore in 2023, indicating debt repayments or dividend payouts. Tata Communications had relatively smaller outflows, ranging from Rs. 1.21 crore in 2019 to Rs. 709.7 crore in 2022, before turning positive at Rs. 1,410.1 crore in 2023, suggesting improved financial stability. Overall, Vodafone Idea and Bharti Airtel appear to be reducing debt, while Tata Communications has managed to generate positive financing cash flow in 2023, indicating better financial management.

Graph 6 Intrinsic Value and Market Price



Based on the intrinsic value and market price analysis, Vodafone Idea has an intrinsic value of Rs. 11.8, while its market price is Rs. 12.75, indicating that the stock is slightly overvalued. Bharti Airtel, with an intrinsic value of Rs. 1,900.93 and a market price of Rs. 1,299, appears to be undervalued, suggesting a potential investment opportunity as the stock is trading below its estimated true worth. Tata Communications, on the other hand, has an intrinsic value of Rs. 1,672.29 compared to a market price of Rs. 1,739.95, indicating a slight over valuation. Overall, Bharti Airtel seems to be the most attractive investment based on fundamental analysis, while Vodafone Idea and Tata Communications are trading above their intrinsic values, suggesting limited upside potential.

Graph 7 Net Profit Ratio



From 2019 to 2023, Vodafone Idea consistently reported negative net profit ratios, with the highest loss of -165.26% in 2020, improving slightly to -69.52% in 2023, indicating ongoing profitability challenges. Bharti Airtel, on the other hand, showed a positive net profit ratio, increasing from 1.64% in 2019 to 8.29% in 2023, reflecting significant profitability growth, particularly in recent years. Tata Communications also maintained a positive net profit ratio, growing from 0.42% in 2019 to 9.9% in 2023, showing steady improvement in profitability. While Vodafone Idea remains unprofitable, Bharti Airtel and Tata Communications have demonstrated strong and improving profitability, with Tata Communications leading in 2023.

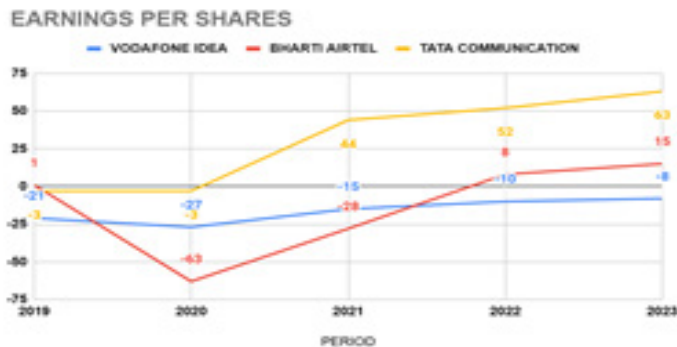
Graph 8 Debt Equity Ratio



From 2019 to 2023, Vodafone Idea's debt-equity ratio fluctuated significantly, with a sharp improvement from 1.75 in 2019 to -0.012 in 2023, reflecting a reduction in debt or potential

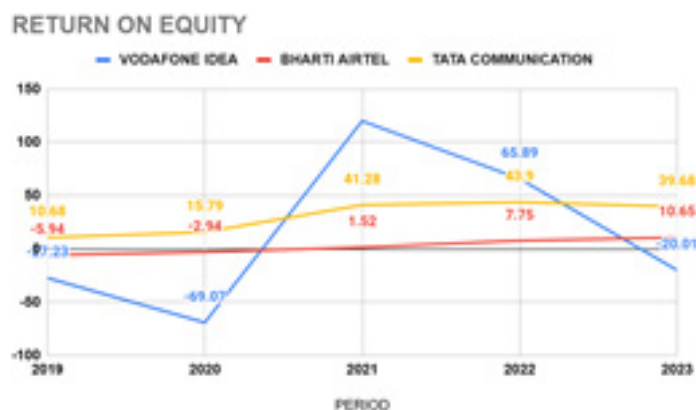
restructuring efforts. This negative value in 2023 may indicate a stronger equity base or a shift towards a more balanced capital structure. Bharti Airtel maintained a relatively stable debt-equity ratio, starting at 1.15 in 2019 and increasing slightly to 1.66 in 2023, suggesting a moderate level of debt but manageable relative to equity. Tata Communications showed a volatile trend, with a high debt-equity ratio of 76.96 in 2021, dropping significantly to 3.29 in 2023, signaling a reduction in leverage and improved financial health. Overall, Vodafone Idea has significantly reduced its debt load, Bharti Airtel maintains a moderate ratio, and Tata Communications has decreased its leverage after a peak in 2021, improving its financial stability.

Graph 9 Earnings Per shares



From 2019 to 2023, Vodafone Idea's earnings per share (EPS) remained consistently negative, with the losses increasing from Rs. 21 in 2019 to Rs. 27 in 2020, but slightly improving to Rs. 8 in 2023, indicating ongoing financial struggles and negative shareholder value. Bharti Airtel, however, showed a significant improvement in EPS, rising from Rs. 1 in 2019 to Rs. 15 in 2023, reflecting strong earnings growth and enhanced profitability over the period. Tata Communications, after fluctuating between negative and positive EPS, showed a steady upward trend, moving from Rs. 3 in 2019 to Rs. 63 in 2023, signaling remarkable profitability and a strong recovery. Overall, Bharti Airtel and Tata Communications demonstrate strong earnings growth, while Vodafone Idea continues to face challenges in achieving profitability.

Graph 10 Return On Investment



From 2019 to 2023, Vodafone Idea's Return on Investment (ROI) remained negative, starting at -27.23% in 2019, peaking at 120.07% in 2021, but falling again to -20.01% in 2023, indicating high volatility and poor returns for investors, despite some brief positive performance in 2021. Bharti Airtel demonstrated consistent but modest improvement in ROI, rising from -5.94% in 2019 to 10.65% in 2023, reflecting positive returns and strong investment performance over the period. Tata Communications showed a steady positive ROI growth, moving from 10.68% in 2019 to 39.68% in 2023, indicating efficient capital utilization and strong profitability over time. Overall, Bharti Airtel and Tata Communications delivered positive and improving ROI, while Vodafone Idea's ROI remains inconsistent and negative, signaling challenges in generating investor value.

Findings

Profit and Loss: Vodafone Idea consistently reported significant losses, with the highest loss of Rs. 73,131.5 crore in 2020, improving to Rs. 29,307.8 crore in 2023, but still in financial distress. Bharti Airtel faced heavy losses in 2019 (Rs. 48,642.2 crore) but significantly reduced them to Rs. 89.6 crore in 2023, indicating financial recovery. Tata Communications remained profitable throughout, with a peak profit of Rs. 1,167.32 crore in 2021, stabilizing at Rs. 638.63 crore in 2023, reflecting a strong and sustainable business model.

Balance Sheet: Vodafone Idea's total assets declined from Rs. 2,33,053.1 crore in 2019 to Rs. 2,07,273.1 crore in 2023, indicating asset erosion, likely due to financial struggles and debt repayment. Bharti Airtel's total assets increased from Rs. 2,22,907.5 crore in 2019 to Rs. 3,35,577.2 crore in 2023, reflecting expansion and improved financial stability. Tata Communications also exhibited steady asset growth, rising from Rs. 13,489.69 crore in 2019 to Rs. 17,783.73 crore in 2023, showcasing financial stability and controlled expansion.

Net Cash Flow from Operating Activities: Vodafone Idea significantly improved its operating cash flow from Rs. 5,207.9 crore in 2019 to Rs. 18,366.1 crore in 2023, despite persistent losses. Bharti Airtel demonstrated strong and consistent growth, rising from Rs. 10,812.1 crore in 2019 to Rs. 43,582.6 crore in 2023, indicating operational efficiency. Tata Communications exhibited steady growth, increasing from Rs. 1,108.04 crore in 2019 to Rs. 2,105.93 crore in 2023, showcasing stable business operations.

Net Cash Flow from Investing Activities: Vodafone Idea's investing cash flow showed high volatility, with a peak outflow of Rs. 49,966 crore in 2023, suggesting urgent financial adjustments. Bharti Airtel consistently recorded high outflows, increasing from Rs. 20,455.9 crore in 2019 to Rs. 30,006.3 crore in 2023, indicating significant capital investments. Tata Communications had moderate and stable outflows, ranging from Rs. 1,092.54 crore in 2019 to Rs. 3,500.47 crore in 2023, reflecting controlled capital expenditures.

Net Cash Flow from Financing Activities: Vodafone Idea consistently recorded negative financing cash flows, with outflows peaking at Rs. 16,773.8 crore in 2021 and improving slightly to Rs. 14,592.9 crore in 2023, likely due to debt repayments. Bharti Airtel had fluctuating trends, with a peak inflow of Rs. 21,114.1 crore in 2020, followed by consistent outflows, reaching Rs. 12,500.4 crore in 2023, indicating debt repayments and dividend payouts. Tata Communications, in contrast, had mixed trends, turning positive in 2023 with Rs. 1,410.1 crore, suggesting financial stability.

Intrinsic Value Analysis: Vodafone Idea has an intrinsic value of Rs. 11.8, while its market price is Rs. 12.75, indicating slight over valuation. Bharti Airtel has an intrinsic value of Rs. 1,900.93 compared to a market price of Rs. 1,299, suggesting it is undervalued and a potential investment opportunity. Tata Communications has an intrinsic value of Rs. 1,672.29 and a market price of Rs. 1,739.95, indicating slight over valuation.

Net Profit Ratio: Vodafone Idea consistently had negative profit margins, peaking at -165.26% in 2020 and improving to -69.52% in 2023. Bharti Airtel improved significantly from 1.64% in 2019 to 8.29% in 2023. Tata Communications showed steady profitability, increasing from 0.42% in 2019 to 9.9% in 2023.

Debt-Equity Ratio: Vodafone Idea's debt-equity ratio fluctuated, improving from 1.75 in 2019 to -0.012 in 2023, possibly due to restructuring. Bharti Airtel maintained a moderate level, rising from 1.15 in 2019 to 1.66 in 2023. Tata Communications peaked at 76.96 in 2021 before reducing to 3.29 in 2023, showing improved financial stability.

Earnings Per Share (EPS): Vodafone Idea's EPS remained negative, slightly improving from Rs. 21 in 2019 to Rs. 8 in 2023. Bharti Airtel's EPS rose significantly from Rs. 1 in 2019 to Rs. 15 in 2023, reflecting profitability. Tata Communications showed strong improvement, moving from Rs. -3 in 2019 to Rs. 63 in 2023.

Return on Investment (ROI): Vodafone Idea's ROI remained negative, fluctuating between -27.23% in 2019 and -20.01% in 2023, despite a temporary spike in 2021. Bharti Airtel showed a positive trend, rising from -5.94% in 2019 to 10.65% in 2023. Tata Communications demonstrated strong ROI growth, improving from 10.68% in 2019 to 39.68% in 2023.

Conclusion

Financial analysis of Vodafone Idea, Bharti Airtel, and Tata Communications proves useful for industry players and investors. Vodafone Idea is financially stressed, having been reporting steady losses and unfavorable financial ratios and hence is a high-risk stock. Its intrinsic value of Rs. 11.8 is marginally lower than its market value of Rs. 12.75, implying mild over valuation. Bharti Airtel has shown robust financial revival, with increasing profitability, stable asset base growth, and growing EPS. Its intrinsic value of Rs. 1,900.93 is much greater than its current market price of Rs. 1,299, indicating it is undervalued and worth investing in. Tata Communications has shown consistent profitability, strong financials, and long-term growth. But its intrinsic value of Rs. 1,672.29 is a bit less than its market value of Rs. 1,739.95, showing minor over valuation.

Analysis of trends indicates the growing nature of the telecommunication industry, prioritizing balancing between capital outlays and generating income for long-term sustainability. The ratio analysis similarly illustrates the uneven financial condition of these organizations, further highlighting the need for well-managed profitability, debt regulation, and the optimization of returns. Generally speaking, investors can use these as guidelines in decision-making for proper investment, while organizations have to synchronize their practices with the advances in the sector to ensure they continue to sustain long-term expansion.

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