

ANEMPIRICAL STUDY ON RELATIONSHIP BETWEEN EARNINGS AND STOCK PRICE OF SELECTED COMPANIES OF INDIA

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ABSTRACT

The significant key variables that impact the stock price of the company share are supply and demand variables. In case on higher demand and most of the people start buying then prices definitely will go up and in case of higher supply and most of the people start selling then the stock prices of the company will go down. Policies of the government, industry's latest trend and company's performance and potentials have effects on demand behaviour of investors, both in the primary and secondary stock markets. The variable affecting the stock price of the equity shares can be observed from the macro and micro economic perspectives. Macro-economic factors include politics, general economic conditions - i.e. how the economy is performing, government regulations, etc. In this study researcher focus on to study the relation between earnings of the company and stock prices movement, also to see movement of stock prices depended of the financial performance of the company. Researcher have selected three prominent IT companies (Infosys Ltd, Wipro Limited, Tata Consultancy Services Limited) to examine the relation between earnings and stock prices.

Keywords: Stock price, Variable, Earning, Economy

INTRODUCTION

Equity is the lingering case or enthusiasm of the most junior class of speculators in resources, after all

liabilities are paid. If liability exceeds assets, negative equity exists. Investors equity or investors equity or investors' assets or investors capital all are one and the same. They all speak to the rest of the enthusiasm for resources of an organization, spread among singular investors of normal or favored stock. In Equity Market, there are number of variables which impact the market cost of an offer. An investigation of which elements will influence and to what degree they influence the market equity causes a financial specialist to settle on a venture choice Knowledge of basic variables and their impact on equity share costs is useful to corporate, administration, government and speculators (Chandra, 1981). This Study tries to break down the different measurements in a quantitative system in enhancing the comprehension of offer costs and their determinants in widening the base of offer market, which may help with making a superior venture culture in the nation. Investment is a most vital fundamental component for the development of the nation Investments makes an interpretation of economy in to a powerful economy. For an industry, this investigation recognizes the factors which add to its development in examination with different enterprises. From the Investor viewpoint, the investigation encourages the financial specialist to know the components to be considered while settling on a speculation choice. A comprehension of determinants of offer costs is helpful in the definition of administration strategies identifying with

profit instalment, reward presentation, right issues, and so forth. Investments can likewise frame better judgments and settle on smart and sound venture choices (Sachdeva, 1994, p.5). The most fundamental factors that impact cost of equity share are request and supply factors. On the off chance that the greater part of the general population begin purchasing at that point costs climb and if individuals begin selling prices go down. Government policies, firm's and industry's performance and potentials have consequences for request conduct of Investment, both in the essential and auxiliary markets. The variables influencing the cost of a equity offer can be seen from the large scale and small scale financial viewpoints. Full scale financial components incorporate governmental issues, general monetary conditions - i.e. how the economy is performing, government directions, and so forth. At that point there might be different variables like request and supply conditions which can be affected by the execution of the company and, obviously, the execution of the company vis-a-vis in the industry. To the corporate administration a comprehension of the valuation component in stock market is essential for the sound financial management of the company. An comprehension of determinants of offer costs is helpful in the detailing of administration strategies identifying with profit instalment, reward affirmation, right issues, and so forth. Investment can likewise frame better judgments and settle on wise and sane venture choices (Sachdeva, 1994, p.5). Investment in equity share is a standout amongst the most fluid types of venture. Market cost of the offer is one the most vital factor which influences speculation choice of financial specialists. It is likewise recommended from the hypotheses that market cost of the offer relies on many variables, for example, procuring per

share, profit per share, size of the firm etc, this is the most successive inquiry that most stock/alternatives merchants may have in their brains. Stocks equity changes because of market powers, i.e. purchasing and offering of the accessible stocks in the market. The accompanying are the variables that effect or even anticipate the purchasing or offering of stock that at last influences stock costs of companies.

REVIEW OF LITERATURE

FarisNasif AL-Shubiri watched that the adjustments in the stock cost additionally depend up on the smaller scale and large scale monetary components. In his investigation, he directed Simple and various relapse examinations and discovered that there is a profoundly positive huge connection between market price of stock and net asset value per share. Dr. Sanjeet Sharma in his examination broke down that earning per share being the most grounded determinants of market cost in a positive course. In this way, speculators are proposed to deal with earning per share variable in to account before putting resources into a company. Malakar, B. furthermore, Gupta, R., (2002) uncovered that Earnings per share is found to be noteworthy determinant of share price by considering share cost of eight noteworthy cement companies in India for the period 1968 to 1988 and five variables, namely, the share price, dividend per share, earnings per share, retained earnings, and sales proceeds. Tuli, Nishi and Mittal, R.K. (2001) led a cross sectional examination by considering income proportion of 105 organizations for the period 1989-93 and discovered profit for each offer were observed to be huge in deciding the share price. Malhotra (1987) led an examination on four ventures, to be specific general engineering, cotton

textile, food products and paper covering a time of four years from 1982 to 1985 and found that income for each offer had positive and critical effect on advertise cost of value share Kumar and Hundal (1986) utilized the straight relapse show and inspected the effect of earning per share on market price of share BalKrishnan (1984) connected relationship and numerous straight relapse strategies on 22 firms for the year 1982-83. Out of five variables, earning per share remained insignificant determinant of market price.

RESEARCH OBJECTIVES

The main objective of the study is:

To examine the relationship between stock price and earnings of selected IT Companies of India.

To analyse the effect of earning on stock price of selected Companies.

HYPOTHESIS OF THE STUDY

H₀: There is no significant relationship between Stock Price and Earnings Per Share of selected Companies.

H_a: There is a significant relationship between Stock Price and Earnings Per Share of selected Companies.

H₀: There is no significant impact of Earnings Per Share on Stock Price of selected Companies.”

H_a: Alternate Hypothesis-“There is a significant impact of Earnings Per Share on Stock Price of selected Companies.”

DATA ANALYSIS

1. RELATION BETWEEN STOCK PRICE AND PROFIT/LOSS FOR THE PERIOD

SUMMARY

Groups	Count	Sum	Average	Variance
Profit/Loss For The Period	5	72198.3	14439.66067	2423824.49
Stock Price	5	8175.817	1635.163333	72000.8632

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	409887879.9	1	409887879.9	328.458784	8.824E-08	5.31765
Within Groups	9983301.403	8	1247912.675			
Total	419871181.3	9				

$F_{cal} > F_{tab}$ and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is relationship between stock price and profit/loss for the period

NEED OF THE STUDY

The main purpose of this study is to find relationship between Stock Price and Earnings of selected IT Companies of India. This study helps in identifying the relationship between Stock Price and Earnings selected IT Companies of India which helps the analyst to make an appropriate investment decision.

SCOPE OF THE STUDY

The study is undertaken for three companies of IT industry of India.

RESEARCH DESIGN

A research design is the specification of methods and procedures for acquiring the needed information. Design to be adopted here is exploratory research. It basically seeks to extract information about the influence and relationship between Stock Price and earnings of selected IT companies of India

SAMPLE SIZE

IT companies of India has been taken under study Infosys Ltd, Wipro Limited, Tata Consultancy Services Limited.

TOOLS USED IN ANALYSIS

The present study attempts to study the relationship between Stock Price and earnings of selected IT companies by using ANOVA.

2. RELATION BETWEEN STOCK PRICE AND TOTAL REVENUE

SUMMARY

Groups	Count	Sum	Average	Variance
TOTAL REVENUE	5	357585.5	71517.10133	82616066.9
Stock Price	5	8175.817	1635.163333	72000.8632

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	12208713147	1	12208713147	295.295645	1.3378E-07	5.31765
Within Groups	330752271.1	8	41344033.89			
Total	12539465418	9				

$F_{cal} > F_{tab}$ and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is relationship between stock price and total revenue

SUMMARY						
Groups	Count	Sum	Average	Variance		
EPS	5	424.4233	84.88466667	159.581992		
Stock Price	5	8175.817	1635.163333	72000.8632		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	6008409.861	1	6008409.861	166.529179	1.2299E-06	5.317655
Within Groups	288641.781	8	36080.22262			
Total	6297051.642	9				

$F_{cal} > F_{tab}$ and p-value is less than specified α of 0.05. So, null hypothesis is rejected and it is concluded that there is relationship between stock price and earning per share

4. RELATION BETWEEN STOCK PRICE AND NET PROFIT MARGIN

SUMMARY						
Groups	Count	Sum	Average	Variance		
Net Profit Margin	5	103.0133	20.60266667	0.36888556		
Stock Price	5	8175.817	1635.163333	72000.8632		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	6517015.366	1	6517015.366	181.025107	8.9254E-07	5.317655
Within Groups	288004.9285	8	36000.61607			
Total	6805020.294	9				

$F_{cal} > F_{tab}$ and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is relationship between stock price and net profit margin

CONCLUSION

Movement of stock prices affected by many variables such as government policies, international market, financial performance of the company, economic condition of the country, major investment, merger and acquisition and other macro and micro parameters. From this study we have seen that relationship between stock prices and the earnings of the IT companies. From the study it can be concluded that profit/loss for the period, earning per share, total revenue and net profit margin are the variables impact on stock prices movement of IT companies of India.

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