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DETERMINANTS OF SHARE PRICE WITH REFERENCE TO BSE “GROUP A” SHARES

Mrs.Seema Balan¹

¹Full Time Research Scholar, Department of Management Studies, Sri Chandrasekharendra Saraswathi Viswa Mahavidyalaya (SCSVMV University), Enathur, Kanchipuram, Tamilnadu, India

Dr.B.Balaji Srinivasan²

²Associate Professor, Department of Management Studies, SCSVMV University, Enathur, Kanchipuram, Tamilnadu, India

ABSTRACT

Investment in equity shares is one of the major avenues of investment that yields considerable returns to investors. It is also a source of finance for the capital requirements of firms. Returns from such equity investments are subject to vary owing to the movement of share prices, which depend on various factors. Share price determination is always a topic for discussion. Analysts and investors hold different perspectives about the variables that affect the share price determination. It is a tough task to clearly predict the exact variables which have a great impact on share price. The study takes into account 69 companies from 7 industries of group A shares of BSE which have a higher weight on the index for a period of 7 years from 2006-2013. It is observed that Sales, DPS and Return on net worth as determinants of share prices.

KEYWORDS: DPS, EPS, DP, Book Value, P E ratio, networth, net profit, Dividend Yield, RONW

1. INTRODUCTION

All human beings invest their hard earned money to make their future secure. Simple earning and investment is not enough, but we have to consider the term inflation also, the price rise situation and devaluation of money. In order to beat the situation we have to earn more from our

investment. The stock market is such an investment avenue. Stock market helps the investor to trade in financial instruments like bonds, derivatives, mutual funds as well as shares. A share can be bought or sold if it is listed in a stock exchange. India's premiere stock exchanges are Bombay Stock Exchange and National Stock Exchange.

Investment in equity shares is one of the most potential investments which yield considerable return. It is also a source of raising finance for the firms. Returns from such investments vary depending on the movement of the stock price. The value of a share is determined by the demand and supply of the particular stock in the share market. In general if people start buying the share, the price of the particular share will go up and if they start selling, the price may go down. So many factors like market sentiments, technical factors, and financial results are affecting the demand and supply of the stock price. Formal company announcements and news can also affect a market trend analysis. Good news or bad news can cause rising stock prices, or it can cause falling prices and rising prices for competing corporations. Company layoffs can reduce consumer trust in the future of a company and result in less-valuable stock. Successful company acquisitions, however, are an indication of growth and can lead to better stock performance. Knowledge of such factors and the impact of those factors on the share price will help the investor to invest his money wisely in the market.

Security market is all about risk. All investors want to earn more return from their investment. They always prefer for happy situations and want to avoid the adverse ones. The fondness to be happy always has given birth to the term risk. In order to reduce the risk the investor has to select the strong share in terms of profitability.

The determinants of stock prices are often a matter of debate. Economists and financial market participants hold different perspectives as far as the pricing of shares is concerned. In a strong market, share prices would be determined primarily by fundamental factors such as management, diversification, earning per share, dividend per share, payout ratio, price earnings ratio, size of the firm dividend yield, turnover etc. To forecast future stock prices, fundamental analysts use stock valuation ratios to derive a stock's current fair value and forecast future value. If fair value is not equal to the current stock price, the stock is either over or under valued and the market price will ultimately attracted towards fair value. Fundamental analysts believe that prices do not accurately reflect all available information; they look to capitalize on perceived price discrepancies.

Investment in equity has an advantage of liquidity as well as profitability. Normally equity investment attracts dividend and capital appreciation as a result of higher market price. Before investing into equity, an investor should analyse the investment decision either by way of fundamental

analysis or technical analysis. The fundamental analysis is based on certain variables with respect to economy, industry and company. The variables to be included in the economy and industry have same criteria irrespective of the companies to be taken into account. At same time the companies operating under the economy and industry differ from each other as well as possess unique properties. Hence the investors will give more importance to company analysis before investing in the equity. The company analysis is based on certain variables and those variables have direct impact on market price. Since many numbers of variables are available for evaluation of company performance, the study has restricted to certain investors' variables to find the impact of the variables on market price.

2. LITERATURE REVIEW

Srivastava (1984) examined cross-section study of 327 companies and concluded that higher amount of dividends are associated with higher market prices of securities in India.

Balkrishan (1984) in his work analyzed the interrelationship in the explanatory variables, i.e. dividend per share, earning per share, book value, yield and cover with market price of share. A linear regression model was used to study the inter-relationship of these variables in general engineering and cotton textile industries.

Chawla & Srinivasan (1987) investigated the data for chemical industry, examined the relation between share prices, dividend and retained earnings. Both dividend and retained earnings were found to be significant determinants of share price.

Karathanassis & Philippas (1988) in their study taken into consideration the banks listed on Athens stock exchange found dividends, retained earnings and size to exert a significant positive influence on share prices.

Zahir M A (1992) report dividend, earnings and yield as factors influencing prices of both more volatile and less volatile shares. Further, the study point out that security price index is a significant price determinant of more volatile shares.

Sen and Ray (2003) examined the key determinants of stock price in India. The study is based upon the stocks comprising the BSE index for a period of 12 years from 1988-2000. The study revealed dividend payout was an important factor affecting stock prices. Further, they found earning per share has a very weak impact on the share prices.

Mishra (2004) in his study using monthly data for the period 1992 to 2002, examined the relationship between stock market and foreign exchange markets using Granger causality test and

Vector Auto Regression technique study suggested that there is no Granger causality between the exchange rate return and stock return.

Mehta & Turan (2005), by examining share prices of the firms listed on the Bombay Stock Exchange, identified market capitalisation, market price to book value ratio and price-earnings ratio as major factors influencing share prices.

Sharma and Singh (2006) used data from 160 Indian firms between 2001 and 2005 and found that earnings per share, price-earnings ratio, dividend per share, dividend coverage, dividend payout, book value per share, and firm size are the determinants of share prices.

Uddin (2009) analysed the effect of certain microeconomic factors on the share prices of bank, leasing and insurance companies listed on Dhaka Stock Exchange. The study found dividend, earnings and net asset value per share to bear a significant relation with share prices.

Nirmala and Sanju (2011) identified the determinants of share prices in the Indian stock market taking into account three sectors viz., auto, health care & public sector undertakings. They employed panel co-integration test and fully modified least squares to examine the effect of dividend, profitability, price earnings ratio and leverage on share prices. The empirical findings showed that dividend per share and price earnings ratio are influenced positively to share price of all three sectors.

3. STUDY UNIT

About BSE

Established in 1875, BSE (formerly known as Bombay Stock Exchange Ltd.), is Asia's first & fastest Stock Exchange with the speed of 200 micro seconds and one of India's leading exchange groups. Over the past 140 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as "The Native Share & Stock Brokers' Association" in 1875. BSE is a corporatized and demutualised entity, with a broad shareholder-base which includes two leading global exchanges, Deutsche Bourse and Singapore Exchange as strategic partners. BSE provides an efficient and transparent market for trading in equity, debt instruments, derivatives, mutual funds. It also has a platform for trading in equities of small and medium enterprises (SME).

More than 5500 companies are listed on BSE making it world's No. 1 exchange in terms of listed members. The companies listed on BSE command a total market capitalization of USD 1.68 Trillion as of March 2015. It is also one of the

world's leading exchanges (5th largest in March 2015) for Index options trading (Source: World Federation of Exchanges).

4. STATEMENT OF PROBLEM

Financial scholars have been conducting studies of share price determinants for several decades; but different researchers have come to different conclusions. Financial economists have come to different conclusion about factors determining share price. A general question may arise in the mind of the shareholders that the corporate dividend policy affects the value of their stocks. By analyzing the dependency of the variables we can very well come to know the variable which has more effect on the determination of share price. This will help the investor to invest in the right share and maximize his returns.

5. OBJECTIVE OF THE STUDY

1. To understand the correlation among the predictor variables.
2. To study the influence of select variables on market return of the scrips

6. SCOPE OF THE STUDY

Investment in equity is one of the most liquid forms of investments. Market price of share is an important factor which affects investment decision of investors. Since the equity shares are traded, the market determines the price according to demand and supply and therefore the share price witnesses' fluctuations. When there is high demand for the equity, the chances of price of the equity to go up will be reasonably bright. But the demand for the scrip is influenced by many factors such as earning per share, book value per share, dividend per share, dividend payout ratio, earning to price ratio, size of the company etc.

The study takes into account the scrips of various sectors in the 'BSE 500 A group' from the year 2006 to 2013. The key variables used in the study are Dividend per share, Dividend payout ratio, Earnings per share, Price Earnings ratio, Book value, Return on Networth and Dividend yield. By taking these factors, the study has made an attempt to analyse the extent to which the market price is influenced by the explanatory variables with the help of regression.

7. RESEARCH METHODOLOGY

7.1 Hypotheses:

H0: There is no correlation among the variables.

H1: There is correlation among the variables.

H0: There is no correlation between market Price and the determinant variables.

H1: There is correlation between market price and the determinant variables

H0 : the variables do not have an impact on the market price.

H1 : the variables have an impact on the market price.

7.2 Sampling Method:

Judgment sampling technique is used in the selection of company and sector.

7.3 Statistical tools used:

Correlation and Regression

Regression model: Mathematically the equation is as follows

$$Y = a + b_1X_1 + b_2X_2 + \dots + b_nX_n$$

Where ,

Y is the dependent variable

X is independent variable

a is intercept

b₁ ...b_n are co-efficient of X₁, X₂ ...X_n

8. EXPLANATION OF VARIABLES

8.1 MARKET PRICE (P):

The market price of the share is mainly determined by the forces of demand and supply of a particular security in the market. The market price reflects the collective wisdom and knowledge of the market. In the present study, average of 12 months closing price has been taken.

8.2 DIVIDEND PER SHARE (DPS):

Dividend per share (DPS) is an accounting ratio used to evaluate the total number of dividends declared for each share of issued stock. The issued stock taken into account is common stock. Declared dividends are the portion of the company’s profit that is to be paid to the shareholder. However, declared dividends are not the equivalent of paid dividends. By analyzing the DPS of a company the investor can very well decide whether to invest in the share since it gives a clear picture about the company’s profit.

8.3 EARNING PER SHARE (EPS):

Earnings per share measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all of the profits earned by the company were distributed to the outstanding shares at the end of the year.

8.4 DIVIDEND PAYOUT RATIO:

The dividend payout ratio is the amount of dividends paid to stockholders relative to the amount of total net income of a company.

8.5 BOOK VALUE

Book value indicates the company’s total assets less intangible assets and liabilities such as debt. In other words, book value refers to the total amount a company would be worth if it liquidates its assets and paid back all its liabilities. It also represent the value of a particular asset on the company’s balance sheet after taking accumulated depreciation into account.

8.6 PRICE EARNINGS RATIO

The PE ratio is probably the most common measure to help investors compare how cheap or expensive a firm’s shares are. It’s only when investors compare a firm’s share price to its annual net diluted earnings per share that they can get a sense whether a company’s shares are overvalued or underpriced. The higher the PE, the more expensive will be the company’s stock.

8.7 NETWORTH:

Networth refers to the amount by which assets exceed liabilities. Net worth is a concept applicable to company as a key measure of how much an entity is worth. A consistent increase in net worth indicates good financial health. A high net worth relates to good financial strength of a company. Similarly a low or negative net worth will relate to a weaker financial strength, thus directly affecting the company's ability to raise funds from the market. Net worth is the difference between the asset and the liability of a company.

8.8 NET PROFIT:

Net profit, net income, or net earnings is a measure of the profitability of a company after accounting for all costs. The net profit margin percentage is a related ratio. This figure is calculated by dividing net profit by revenue or turnover, and it represents profitability, as a percentage.

8.9 DIVIDEND YIELD:

The dividend yield or dividend-price ratio of a share is the dividend per share, divided by the price per share. It is also a company's total annual dividend payments divided by its market capitalization, assuming the number of shares is constant. It is often expressed as a percentage. Dividend yield is used to calculate the earnings on shares considering the total dividends declared by the company during the year.

8.10 RETURN ON NETWORTH

Return on Net Worth (RONW) is used in finance as a measure of a company’s profitability. This ratio is useful for comparing the profitability of a company to that of other firms in the same industry It reveals how much profit a company generates with the money that the equity

shareholders have invested. Therefore, it is also called 'Return on Equity' (ROE).

9. ANALYSES

The output the model summary reports a statistic that measures "goodness of fit", show that

there are ten variable which are significant to the price determination, represented by R square. It is the square of the coefficient of correlation. Since this is a multiple regression, we will ignore R square, but adjusted R square will be used.

Table 1. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.924 ^a	0.853	0.839	230.16864

a. Predictors: (Constant), Log Sales, RONW, PE, BV, Net worth, DY, DPS, DP, Net Profit, EPS

Interpretation

The value of R² equals to 0.839 indicates that 83% of the scrip price is explained by Log Sales, Net Profit, RONW, DP, PE, DPS, DY, EPS,

BV of the share. The value of (R²) increases, when an additional explanatory variable is added to the model.

Table 2. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	32570000.00	10	3257300	61.484	.000 ^a
Residual	5615625.92	106	52977.6		
Total	38190000.00	116			

a. Predictors: (Constant), Log Sales, RONW, PE, BV, Net worth, DY, DPS, DP, Net Profit, EPS

b. Dependent Variable: PRICE

Interpretation

The findings from the Fishers ratio (i.e. the F Statistics, which is a proof of the validity of the estimated model) as reflected in table 2 indicates that the F is about 61.484 and a p-value that is less

than to 0.05 (P-value=0.000), this invariably explains that the explanatory variables are significantly associated with the dependent variable. That means they strongly determine the behavior of the market values of share prices.

Table 3. COEFFICIENTS

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	46.821	108.093		0.433	0.666
DPS	40.547	3.085	0.817	13.141	0
DP	-0.359	1.702	-0.016	-0.211	0.833
EPS	3.573	2.115	0.453	1.689	0.094
BV	1.062	0.489	0.248	2.172	0.032
PE	3.486	1.39	0.129	2.508	0.014
Net worth	0.075	0.027	0.304	2.82	0.006
Net Profit	-0.383	0.121	-0.805	-3.167	0.002
DY	-39526	4998.89	-0.568	-7.907	0
RONW	15.618	3.887	0.319	4.018	0
Log Sales	337.908	138.192	0.11	2.445	0.016

Interpretation:

The estimated regression equation from Table 3 can be written as

$$Y = 46.821 + 40547X1 - 0.359X2 + 3.573X3 + 1.062X4 + 3.486X5 + 0.075X6 - 0.383X7 - 39526X8 + 15.618X9 + 337.908X10,$$

Where

- Y → Market Price
- X1 → DPS
- X2 → DP
- X3 → EPS
- X4 → Book Value
- X5 → PE
- X6 → Net worth
- X7 → net Profit
- X8 → DY
- X9 → RONW
- X10 → Log Sales

The above estimated regression equation indicates that DPS, EPS, Book Value, PE, net worth, RONW and Log Sales are positively related with market price as is evident from the positive value of co-efficient (40.547, 3.573, 1.062, 3.486, 0.075, 15.618 and 337.908) but the DP, net profit and DY are negatively related with market price as the coefficients are negative (-0.359, -0.383 and -39526). The inference of the above statement is when the DPS goes by one unit, the market price would go up by 40.547 similarly EPS, Book Value, PE, net worth, RONW and Log Sales increase by one unit, the market price would increase to 3.573, 1.062, 3.486, 0.075, 15.618 and 337.908 respectively. Among the positive impact of variables, log sales has made larger impact on market price followed by DPS and RONW. In the same way when DY ratio increases by 1 unit, the market price may go down by 39526.

Table 4 COEFFICIENT OF CORRELATION

	DPS	DP	EPS	BV	PRICE	PE	Net worth	Net Profit	DY	RONW	Log Sales
DPS	1	.521**	.261**	.537**	.702**	0.002	-0.005	0.033	.652**	.216*	-0.127
DP	.521**	1	-0.049	.335**	.260**	.318**	.295**	-0.081	.591**	-0.106	-.340**
EPS	.261**	-0.049	1	.548**	.239**	-0.088	.277**	.898**	.229*	.731**	-.248**
BV	.537**	.335**	.548**	1	.521**	-0.148	.394**	.324**	.436**	0.089	-0.154
PRICE	.702**	.260**	.239**	.521**	1	.254**	0.038	0.027	0.091	.209*	0.132
PE	0.002	.318**	-0.088	-0.148	.254**	1	0.114	0.001	-.306**	0.074	-0.076
Net worth	-0.005	.295**	.277**	.394**	0.038	0.114	1	.521**	0.073	-0.021	-.280**
Net Profit	0.033	-0.081	.898**	.324**	0.027	0.001	.521**	1	0.076	.680**	-.295**
DY	.652**	.591**	.229*	.436**	0.091	-.306**	0.073	0.076	1	0.146	-.260**
RONW	.216*	-0.106	.731**	0.089	.209*	0.074	-0.021	.680**	0.146	1	-0.05
Log Sales	-0.127	-.340**	-.248**	0.154	0.132	0.076	-.280**	-.295**	-.260**	-0.05	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Interpretation

The Pearson co-efficient of correlation is used to find out the relationship between market price of share and Log Sales, Net Profit, RONW, DP, PE, DPS, DY, EPS, BV at 1% and 5% level of significance. It can be seen from the data in table 4, there is a positive correlation between the independent variables DPS (correlation coefficient = 0.702, EPS (correlation coefficient = 0.260), EPS (correlation coefficient = 0.239), BV (correlation coefficient = 0.521), PE (correlation coefficient = 0.254), Net worth (correlation coefficient = 0.038), Net profit (correlation coefficient = 0.027) RONW (correlation coefficient = 0.209), log sales (correlation coefficient = 0.132). DPS, DP, EPS, BV, and PE are having the significant relationship with dependant variable, i.e., Price at 1% significant level. Whereas, the RONW is having a significant relationship with dependant variable price at 5% significant level. It indicates the independent variables, viz., DPS, DP, EPS, BV, and PE are showing an impact on dependant variable price.

10. CONCLUSION

Understanding the impact of various fundamental variables on share price is very much helpful to the investors as it will help them in taking profitable investment decisions. This study analyses the impact of selected accounting variables, like book Value, dividend per share, earnings per share, dividend payout ratio, dividend yield, return on net worth, net profit, net sales and P/E ratio on the equity prices of listed companies in Bombay stock exchange for the period 2005 to 2013. The results confirm the significance of DPS and sales as determinants of market share price by the statistical tool of multiple regression. Further, result of the study indicated that dividend per share being the strong determinants of the market price; the study supports liberal dividend policy and suggests company to pay regular dividends. This policy will affect the market price of the share in positive direction.

Appendix 1

Sample unit

Sr no	Industry	No of companies	Name of the companies
1	Bank	22	Allahabad Bank, Andhra bank, Axis bank, BOB, Bank of India, Canara Bank, corporation Bank, CUB, Dena Bank, HDFC Bank, IDBI Bank, ICICI Bank, Indusind Bank, ING vysya, IOB, J&K Bank, Kotak Mahindra Bank, OBC, SBI, SIB, Syndicate Bank, Uco Bank, Union Bank
2	Cement	6	Century Textiles, India Cement, J & K cement, Ramco Cement, Shree Cement, Ultratech Cement
3.	Electric Utility	6	Alstom, CESC, NTPC, Neyveli Lignite Corporation,,PTC, Relinfra
4.	Heavy Electrical	5	ABB, BHEL, Crompton Greaves, Siemens, Thermax
5.	Iron and Steel	5	Bhushan Steel, Jindal Steel, JSW Steel, SAIL, Tata Steel
6.	Information Technology	10	CMC, Cyient, HCL Tech, Hexaware, Infy, KPIT, Mphasis, NIIT Tech, TCS, Wipro
7.	Pharmaceutical	15	Aurobindo Pharma, Cadila, Cipla, Divis lab, Dr Reddy's, Glaxo, Glenmark,IPCA, Jubilant Life, Lupin, Natco, Pitamel, Sanofi, SunPharma, torrent Pharma
Total		69	

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