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Accounting Information and Share Price Movement of Sensex Companies – With Special Reference to Profitability

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ABSTRACT

The present research work has been undertaken to study the relationship between profitability ratios and share price movements of SENSEX companies and to assess the impact of profitability ratios on share price movements of SENSEX companies. The researchers considered 30 companies which are constituted in the index of SENSEX of BSE as sample. The researchers used ratio analysis as financial tool and descriptive statistics, correlation analysis and regression analysis as statistical tools. The study period was 11 years from 2006-07 to 2016-17. The researchers found that share price movement in terms of return on shares of the sample companies had significant relationship with operating profit ratio and dividend growth rate during the study period, both the relationships were positive but found to be weak. It was also found that operating profit ratio, firm size and dividend growth rate had significant impact on share price movement of SENSEX companies during the study period, of which firm size had negative impact and other factors had positive impact. At a whole profitability ratios did not have major impact on share price movement of SENSEX companies during the study period.

KEY WORDS: Stock market, profitability, share price, return and accounting.

1. INTRODUCTION

In financial sector, stock market is one of the fastest progressing one in India. Stock market deals with securities which are already issued by corporate. It creates liquidity for investors and lead way for capital formation of corporate in primary market. These help for economic development of the country. Investors who like to take more risk and want to earn more return, choose stock market for making investment. Generally in investment, both risk and return have direct relationship each other, where there is high risk there is high return and where there is low risk there is low return. Making investment in shares contains high risk, since prices of shares of corporate son account of various reasons. Generally three different type factors influence the price movement of a company. Firstly, general economic related factors such as GDP of the country, call money rate, foreign exchange rate, foreign exchange reserve, wholesale price index, index of industrial production and so on. Secondly, factors related to a particular industry affect share prices of the companies belonging to the industry. Thirdly, factors related to a particular company specifically affect share price of the company. The direction of movement differs from nature of information. In company related information, accounting information plays an important role in

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directing share prices of the company. Primary motive of a business is to earn profit, hence profitability is being considered by investors for making investment decisions. When profitability is sound, the share price of the company will increase. Hence, the researchers have made an attempt to study share price movement of SENSEX companies based on accounting information related to profitability.

2. A REVIEW OF LITERATURE

Junlie Wang, Gang Fu and Chao luo (2013) found in their study that accounting information had effects on the movement of Chinese stock market. The effects of profitability, EPS and return on equity shareholder fund were most significant. The study also found positive relationship between accounting information and stock price movements in China. Hamid Reza vakilitari and Malektaj M.Oskollei (2014) in their study found that operating margin and inventory turnover ratio had significance, but remaining indicators from financial statement have a low significance on the share price of listed automobile industry in Turban stock exchange in Iran during the period from 2010 to 2015. Micbalis Glezakos, John Mylonakis and Charalampos Katouros (2012) evidenced that the explanatory power of earnings and book value in the formulation of prices increases over time. The study also found that multi colliearity between earnings and book value variables. The study also stated that the results found coherence with the result of previous studies of 38 listed companies in Athens stock market in Greece during the period of 13 year from 1996 to 2008. Menike M.G.P.D and U.S Prababath (2014) in their study identified that there was some relationship between accounting variable and the stock price. The variables EPS, DPS,BVPS had positive and significant relationship with stock price in CSE. It also found that DPS was most sensitive variable with share prices in Srilanka.Sujeewa Kodithuwkku (2016) found that there was a relationship between the selected factors and the movement of stock prices. DPS, EPS and NAVS had positive relationship with share price of sample companies. The study concluded that selected accounting factors influenced the share price of manufacturing sector in Srilanka.

STATEMENT OF THE PROBLEM

Accounting information is playing a prominent role in determining share price of a company. Investors are considering various factors before making investment decisions, among them accounting related information is given special attention by the investors. Analyzing accounting information is an important component of fundamental analysis of a company. Generally investors make investment in successful companies.Efficient management of a company will give success.Management of a company includes various aspects, among them financial management is backbone of all other management activities.Efficient financial management will give success of a company. All the management activities are tied with the aim of earning profit. Hence the researchers analysed whether profitability aspects affect share price movement of the sample companies.

3. OBJECTIVES OF THE STUDY

The study has been made with the following objectives.

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- To study the relationship between profitability ratios and share price movements of SENSEX companies and
- To assess the impact of profitability ratios on share price movements of SENSEX companies.

4. METHODOLOGY

The researchers used both accounting and share market data for analysis. Accounting data related to profitability of the sample companies were retrieved from financial reports of the concerned companies collected from 'Prowess' database. The share market data in respect of share price of the sample companies were collected from official website of Bombay Stock Exchange (BSE). The period of the study is 11 years from 2006-07 to 2016-17. The researchers selected all the 30 companies which are constituted in the index of SENSEX maintained by BSE. The researchers applied descriptive statistics, correlation analysis and regression analysis as statistical tools. In order to quantify profitability, the researchers used ratio analysis as financial tool. The researchers took share price return (SP) as dependent variable and profitability ratios namely, net profit ratio (NP), operating profit ratio (OP), dividend per share (DPS), earnings per share (EPS), firm size (FS) and dividend growth rate (DGR) as independent variables.

RESULTS AND DISCUSSION

This part of the research paper presents results and discussion of the impact of accounting information of SENSEX companies on their share prices for the study period of 11 years from 2006-07 to 2016-17. Table 1 presents the results of descriptive statistics of the variables.

DESCRIPTIVE STATISTICS

	N	MINIMUM	MAXIMUM	MEAN	SD
SP	300	-88.88	330.23	12.27	50.14
NP	300	-99.99	63.55	15.88	12.83
OP	300	-238.98	80.49	16.75	34.88
DPS	300	0.00	270.00	15.15	27.10
EPS	300	-24.83	806.38	53.69	78.23
FS	300	2.44	5.60	4.33	0.56
DGR	300	-100.00	449.99	4.99	57.91
Valid N	300				

Source: Computed from Secondary Data

TABLE NO 1

The results of mean and standard deviation showed that there was high level of deviation in share price returns, operating profit, dividend per share, earnings per share and dividend growth

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rate. Low level of deviation was identified for net profit ratio and firm size. Table 2 presents the results of Pearson's correlation between the selected factors.

CORRELATION ANALYSIS BETWEEN SHARE PRICE AND PROFITABILITY

		SP	NP	OP	DPS	EPS	FS	DGR
SP	Pearson Correlation	1	0.035	0.044	0.047	0.073	-0.052	0.100
	Sig. (2-tailed)		0.545	0.041	0.418	0.206	0.371	0.043
	N	300	300	300	300	300	300	300

Source: Computed from Secondary Data

TABLE NO 2

It could be known from table 2 that net profit ratio, operating profit ratio, dividend per share, earnings per share and dividend growth rate had positive relationship with share price return of SENSEX companies during the study period, of which the correlation coefficient of operating profit and dividend growth rate were significant at 5% level, hence operating profit ratio and dividend growth rate had significant and positive relationship with share price movement of the sample companies. Firm size had negative relationship with share price movement, but it was not statistically significant.

RESULTS OF ANOVA

MODEL		SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
1	Regression	19942.41	6	3323.74	11.33	0.03
	Residual	731789.53	293	2497.57		
	Total	751731.94	299			

TABLE NO 3

It is known from the results of ANOVA that the calculated value of F-statistics was 11.33, its p-value was 0.03, it was statistically significant at 5% level, hence the model framed for the analysis is fit for the study.Table 4 gives the results of regression co-efficient of the selected factors.

RESULTS OF REGRESSION ANALYSIS

MODEL		UNSTANDARDIZED COEFFICIENTS		STANDARDIZED COEFFICIENTS	T	SIG.
		B	STD. ERROR	BETA		
1	(Constant)	42.745	28.276		1.512	0.132
	NP	-0.119	.303	-0.031	-0.394	0.694
	OP	0.176	.126	0.123	3.401	0.049
	DPS	0.028	.156	0.015	0.179	0.858
	EPS	0.061	.052	0.095	1.181	0.239

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FS	-1.232	6.298	-0.092	-4.307	0.032
DGR	0.085	.051	0.098	3.668	0.046
Adjusted R^2	0.027				

TABLE NO 4

It could be known from the results of table 4 that the regression coefficient of net profit was negative at -0.119, but it was not significant as shown by the results of t-statistics and p-value, hence net profit did not have significant impact on share price movement of SENSEX companies during the study period. Regression coefficient of operating profit was positive at 0.176, it was significant at 5% level, hence operating profit had significant positive impact on share price return of the sample companies. The regression coefficient of dividend per share was low at 0.028, similarly regression coefficient of earnings per share and dividend growth rate were also low at 0.061 and 0.085 respectively, these results were not statistically significant, hence these factors did not have significant impact on share price movement of sample companies during the study period. Firm size had significant negative impact on share price movement, since its regression coefficient was -1.232, it was significant at 5% per cent level as shown by the results of t-statistics and p-value. It was found that operating profit ratio, firm size and dividend growth rate had significant impact on share price movement of SENSEX companies during the study period, of which firm size had negative impact and other factors had positive impact. The result of adjusted r squared showed that there was weak explanatory power by the selected factors on share price movement of the sample companies.

5. CONCLUSION

The present research work was undertaken to anlayse the impact of profitability ratios on share price movement of SENSEX companies for the study period of 11 years from 2006-07 to 2016-17. The researchers identified six profitability factors as independent variables and share price return was taken as dependent variable. The researchers found that share price movement in terms of return on shares of the sample companies had significant relationship with operating profit ratio and dividend growth during the study period, both the relationships were positive but found to be weak. It was also found that operating profit ratio, firm size and dividend growth rate had significant impact on share price movement of SENSEX companies during the study period, of which firm size had negative impact and other factors had positive impact. At a whole profitability ratios did not have major impact on share price movement of SENSEX companies during the study period.

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