A Study of Financial Performance of Selective Midcap and Small Cap Equity Shares Listed On National Stock Exchange and Bombay Stock Exchange for the Period 2005-2014 Considering Five Variables

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I. INTRODUCTION

The stock market has become an essential market playing a vital role in economic prosperity that fostering capital formation and sustaining economic growth. Stock markets are more than a place to trade securities; they operate as a facilitator between savers and users of capital by means of pooling of funds, sharing risk, and transferring wealth. Stock markets are essential for economic growth as they insure the flow of resources to the most productive investment opportunities. Stock prices change in stock markets on a daily basis. Moreover, during certain times of the year, it is easy to notice that stock prices appreciate every morning, and this may take place many times in one day for some stocks. This means that stock prices are determined by supply and demand forces. There is no foolproof system that indicates the exact movement of stock prices. However, the factors behind increases or decreases in the demand and/or supply of a particular stock could include company fundamentals, external factors, and market behavior. Company fundamental factors influencing stock prices might include performance of the company, a change in board of directors, appointment of new management, and the creation of new assets, dividends, earnings, etc. External factors might include government rules and regulations, inflation, and other economic conditions, investor behavior, market conditions, money supply, competition, uncontrolled natural or environmental circumstances directly affecting the production of the company, strikes, etc. Moreover, the behavior of market participants could be an important influencing factor of stock price.

The most noble objective and advantage as to why you should invest in the stock market is probably this one. Companies want to get listed in the stock exchange to raise more capital for their business in order that they could expand. Business expansion is translated as more jobs, more taxes for the government and more economic activity. This in effect moves the nation forward and helps build the nation.

It still one of the best automobiles of investment – Even if the stock market has its up and down moments, investing long term in the stock market will still give you one of the highest returns making it one of the ideal car of investments ever. Returns in the stock market fluctuate yearly. For example, in 1986 the Philippine stock market recorded the highest return rate at 224 %. On the other hand the lowest rate of return was in 1997 at negative 41 %. However, the average return (within 20 years) is still somewhere from 24 % to 28 % per year. This means that the long term investor always wins in the long run. Similarly, in India the stock markets have registered 17 per cent growth on CAGR basis

Stock Market investments offer you benefits like easy liquidity, flexibility of amounts invested/disinvested, reasonable returns and a regulatory framework to safeguard your rights. Shares are the most popular form of stock market investments due to their higher potential for capital growth.

There are a few of us who has ever adopted a planned and systematic approach to investing. The approach has always been largely ad hoc in nature. For instance, most of us put an alarm to wake us up in the month of March every year so that we can primarily save taxes and consequently make good investments so that it give us a tax break and would help us to reduce our tax liability. So let us see **why one should invest in stock market?**

II. OBJECTIVES OF UNDERTAKEN RESEARCH

A study to examine the empirical relationship between stock prices i.e. market value and company specific intrinsic factors, such as: Debt Equity , Age of the Company , Inventory Turnover, Dividend Payout, Debtors Turnover during the period 2005-14

1. To examine the degree of relationship between various parameters / variables that have an impact on Market Price of selective Mid Cap and Small Cap Equity shares

listed on National Stock Exchange and Bombay Stock Exchange for the period 2005-2014 .

2. To build a Multiple Regression equation which help in determining the Predictor Dependent variable (Market Price) by the Independent variables.

III. HYPOTHESIS

Following are the hypothesis corresponding to the topic under study:

H 1: There is no relation between Debt Equity Ratio and Market Price of Mid Cap and Small Cap Equity shares.

H 2: There is no relation between Age of the Company and Market Price of Mid Cap and Small Cap Equity shares.

H 3: There is no relation between Inventory Turnover Ratio and Market Price of Mid Cap and Small Cap Equity shares.

H 4: There is no relation between Dividend Payout Ratio and Market Price of Mid Cap and Small Cap Equity shares

H 5: There is no relation between Debtor Turnover Ratio and Market Price of Mid Cap and Small Cap Equity shares.

IV. RESEARCH DESIGN & METHODOLOGY

1. Research Design: The Research Design for this study is "Descriptive Research Design".

2. Sample Size and Technique: The sample Consists of total 263 companies (66 Mid Cap Companies and 197 Small Cap Companies) Listed on National Stock Exchange and Bombay Stock Exchange .

3.Statistical tool for Data Analysis: Descriptive Statistics , Correlation and Multiple Regression are used for the data analysis and interpretations.

V. DATA ANALYSIS, INTERPRETATIONS AND HYPOTHESIS TESTING

Mean, Standard Deviation, Co-efficient of Correlation and Multiple regression are used as statistical tools for data analysis , interpretations and hypothesis testing . Correlation and a linear multiple regression models have been selected to measure the individual as well as combined effects of explanatory variables on the dependent variables. The market price of share has been taken as the dependent variable, while other factors have been taken as explanatory or independent variables. The analysis has been employed to study the effect, keeping in view of this method has certain advantages, which are not available in any other multivariate discriminate analysis. To avoid the problem of multi co-linearity, **BACKWARD ELIMINATION PROCEDURE** of regression has been used.

A linear multiple regression model has been used to measure the combined effects of explanatory variables on the dependent variable. The general form of multiple linear equation is:

$$Y=b0+b1X1+b2X2+b3X3+\ldots\ldots\ldots+bnXn$$

Where, Y = dependent variable, X1, X2, X3……..Xn = independent variables,
B1, b2, b3………..bn=regression coefficient of independent variables.

The statistical significance of regression coefficients have been worked out and tested with the help of t test. The coefficient of determination is computed to determine the percentage variation in the dependent variables explained by independent variables. Also adjusted R-square (R2) and change statistic values are measured. The 'F' values are also computed to test the significance of R2 with 'F' distribution at five percent level of significance.

Dependent variable

In this study the dependent variable is "Market Price of Stock (MPS)".

Independent variables

There was chosen FIVE independent variables and tried to identify how they affect on determination of market value of share.

The independent variables under consideration by researcher are:

1.Debt Equity Ratio (DE)
2.Age of the Company (AG)
3.Inventory Turnover Ratio (IP)
4.Dividend Payout Ratio (DP)
5.Debtors Turnover Ratio (DT)

Mathematically, the equation is:
MPS = ao+b1DE +b2 AG+b3IP+b4DP+b5DT +et
Where, MPS is dependent variable.
ao = constant term
b1 is the regression coefficient of Debt Equity Ratio (DE)
b2 is the regression coefficient of Age of the Company (AG)

b3 is the regression coefficient of Inventory Turnover Ratio (IP)
b4 is the regression coefficient of Dividend Payout Ratio (DP)
b5 is the regression coefficient of Debtors Turnover Ratio (DT)
et= error term

The statistical significance of regression coefficients have been worked out and tested with the help of t test. The coefficient of determination is computed to determine the percentage of variation in the dependent variables as explained by independent variables. Also adjusted R square and change statistic values are measured. The 'F' values are also computed to test the significance of R square with 'F' distribution at one, five and ten percent level of significances.

Results of Hypothesis testing (From 2005-14 Correlation Table)

1. The Correlation Coefficient of Debt Equity Ratio is Significant (Negative) and the association between Debt Equity Ratio and Market Price is significant (Negative) and hence the Null hypothesis is rejected and alternate hypothesis is accepted.

2. The Correlation Coefficient of Age of the Company is Significant (positive) and the association between Age of the Company and Market Price is significant (positive) and hence the Null hypothesis is rejected and alternate hypothesis is accepted

3. The Correlation Coefficient of Inventory Turnover Ratio is Insignificant and the association between Inventory Turnover Ratio and Market Price is insignificant and hence the Null hypothesis is retained and alternate hypothesis is rejected.

4. The Correlation Coefficient of Dividend Payout Ratio is Insignificant and the association between Dividend Payout Ratio and Market Price is insignificant and hence the Null hypothesis is retained and alternate hypothesis is rejected.

5. The Correlation Coefficient of Debtor Turnover Ratio is Insignificant and the association between Debtor Turnover Ratio and Market Price is insignificant and hence the Null hypothesis is retained and alternate hypothesis is rejected.

V. FINDINGS

The Findings from Multiple Regression (Backward Elimination Method) analysis are as follows:

Multiple RValue is 0.87 Signifying that the relationship between the set of independent variables and the dependent variables is VERY STRONG, R Square Value 76.5% Signifying that 76.5% of variance.

For the Period 2005-14, Multiple RValue is 0.80 Signifying that the relationship between the set of independent variables and the dependent variables is VERY STRONG, R Square Value 62% Signifying that 62% of variance . In Market Price (Dependent Variable) is explained by the Independent variables namely Debt Equity Ratio , Age of the Company ,Inventory Turnover Ratio, Dividend Payout Ratio, Debtors Turnover Ratio.

Regression Model is MPS = 33.70386 -22.3189DE +38.84792 AG -0.05112IP -0.0424DP -0.78094DT + et

VI. RECOMMENDATION

1. Stock market can be and they are very volatile and on an inauspicious /bad day could see us losing a significant and a predominant part of your investment. Prudent and Judicious investors invest for the long term. If one is looking to cash in right away, the stock market might not be a good place to put your money.

2. Selling stocks as soon as they rise in price is a sure way to move nowhere fast. Practice self control and hold on to solid stocks unless you're desperate to raise cash. Good stocks can result in big payoffs over the long run.

   (a) If you buy and sell repeatedly, much of your profit will go to commissions for brokers, and your gains will suffer.
   (b) "Day trading" is stacked against newcomers, because they trade against seasoned professionals and computer programs designed to buy and sell at optimum moments.
   (c) Instead, hold on to stocks of companies that are solid and growing. If your stocks pay dividends, reinvest them to increase your earning potential.

3. Invest in equities only if you can Endure the sharp and unpredictable nature of the volatility in prices in the short term.. These ups and downs and sharp Swings in prices is due to the fact that they are directly influenced by various factors like the prevailing economic and political factors

of the economy, change in laws, change in interest rates etc. Also, do keep in mind that in highly volatile markets, prices of even good companies fall due to the general fall in the stock markets.

4. A company may or may not be able to sustain its growth/earnings in the future. Hence, all stocks carry a risk element with them. If the company fails to perform in the future and declare bad results, their share prices fall. Even a factor like a merger and acquisition of a company can affect its share price. Forget capital appreciation, you may have to actually lose your capital!

VII. LIMITATIONS AND FUTURE SCOPE

The present study is based on the performance of companies from period 2005-2014 . The study can be done by taking into consideration some different time frame.

VIII. CONCLUSION

The main aim of this Research was to analyze the determinants of market price of shares of companies listed in the National Stock Exchange and Bombay Stock Exchange . Financial data for the same was retrieved for the period 2005-2014. A sample data for 263 companies were constructed. 5 Independent variables were considered for analyzing the impact of them on Market Price of the share (Dependent variable).

The study mainly tried to establish a relationship between market price of shares (MPS) and five other variables namely Debt Equity Ratio , Age of the Company ,Inventory Turnover Ratio, Dividend Payout Ratio, Debtors Turnover Ratio.

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. The results confirm the significance of five variables as determinants of market share price by the statistical tool of Correlation .

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