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EXPLORING FINANCIAL PERFORMANCE'S INFLUENCE ON INDIAN STOCK PRICES

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ABSTRACT

This research paper aims to investigate the impact of financial performance on the stock prices of three selected Indian companies, namely Maruti Suzuki India Ltd, Reliance Industries Ltd, and Tata Consultancy Services Ltd. The study recognizes the significance of financial performance in determining stock price movements, with the overarching goal of shedding light on the intricate relationship between these two variables. In recent years, stock markets have become increasingly important as vehicles for wealth creation, attracting a diverse array of investors. Consequently, understanding the dynamics of stock price movements has garnered great interest. This study employs a sample size consisting of three prominent Indian companies, each representing different sectors, to examine the link between financial performance and stock prices. The chosen companies are Maruti Suzuki India Ltd from the automotive sector, Reliance Industries Ltd from the conglomerate sector, and Tata Consultancy Services Ltd from the IT sector. The research utilizes data spanning the last five years, from 2018–19 to 2022–23, to assess the financial performance of these companies and its impact on their stock prices. It aims to provide insights into the intricate interplay between financial metrics such as asset turnover ratio and net profit margin and the fluctuations observed in stock prices. This study underscores the complexity of stock price determination and emphasizes the need to consider multiple factors, including market sentiment, industry conditions, and external economic variables, in addition to financial performance. Understanding the relationship between financial performance and stock prices is of paramount importance for investors, analysts, and policymakers, as it informs decision-making processes, investment strategies, and regulatory measures. The findings of this research contribute to a holistic comprehension of stock market dynamics in the context of selected Indian companies and their financial performance, offering valuable insights into the multifaceted nature of stock price movements.

KEYWORDS: Stock Price, Financial Performance, Investor

INTRODUCTION

The Indian stock market, often referred to as the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), is one of the most dynamic and rapidly evolving financial markets in the world. With a rich history dating back to the 19th century, it has grown into a major player in the global financial landscape. The market is characterized by its diverse range of companies, spanning various industries, and it offers a plethora of investment opportunities for both domestic and international investors. The Indian stock market has shown impressive growth over the years, fueled by economic reforms, a burgeoning middle class, and a thriving entrepreneurial spirit. It has witnessed a steady influx of foreign investment, contributing to its liquidity and depth. The market's benchmark indices, such as the BSE Sensex and Nifty 50, are closely monitored indicators of its overall health and performance.

While the Indian stock market has experienced periods of volatility, as seen in the global financial crisis of 2008 and more recently during the COVID-19 pandemic, it has also demonstrated resilience and a capacity for recovery. Regulatory bodies like the Securities and Exchange Board of India (SEBI) have played a crucial role in maintaining market integrity and investor confidence. India's economic and political stability, coupled with its potential for growth, continue to make the Indian stock market an attractive destination for investors seeking opportunities in a rapidly developing economy. As the country's financial markets evolve, they hold the promise of greater transparency, increased participation, and ongoing integration with global markets, positioning India as a key player in the world of finance.

Financial Performance and Stock Price

The relationship between a company's financial performance and its stock price is a fundamental concept in the world of finance. Financial performance refers to a company's ability to generate profits and manage its resources efficiently, while stock price reflects the perceived value of the company in the eyes of investors. Several key factors illustrate the effect of financial performance on stock prices:

- Earnings and Profits: A company's earnings, often reported as earnings per share (EPS), are a critical indicator of its financial performance. Higher earnings typically lead to an increase in stock prices, as investors view profitable companies as more attractive investments. Consistently growing earnings can boost confidence in a company's future prospects, driving up its stock price.
- Revenue Growth: Companies with strong revenue growth tend to see their stock prices rise, as revenue growth is an indicator of a healthy and expanding business. Investors often consider top-line growth as a positive sign for a company's stock price, even if profits are not immediately increasing.
- Profit Margins: A company's profit margins, including gross and net margins, reveal how efficiently it converts revenue into profits. A company with widening profit margins may see an increase in its stock price as investors value efficient operations.
- Financial Health: Factors such as a low debt-to-equity ratio and a strong balance sheet can positively impact stock prices. Companies with less debt and a robust financial foundation are typically viewed as more

stable and less risky, attracting investors and potentially leading to higher stock prices.

- Dividend Payments: Companies that pay dividends often attract income-focused investors. A history of consistent or increasing dividend payments can lead to higher stock prices, as investors seek both income and the potential for stock price appreciation.
- Market Sentiment: Perception and sentiment play a significant role in stock prices. A company's financial performance can influence market sentiment. Positive earnings surprises or strong financial reports can lead to increased investor confidence, while poor performance can have the opposite effect.
- Industry and Economic Factors: The industry a company operates in and the overall economic environment can influence its stock price. Even a financially healthy company can see its stock price affected by broader industry trends or economic conditions.
- Future Growth Prospects: A company's financial performance often foreshadows its future growth potential. Companies with a track record of strong financial performance are more likely to attract investors who believe in their long-term prospects, thereby influencing stock prices.

LITERATURE REVIEW

Author Rakesh Kumar (2015) conducted research on the impact of quarterly results disclosure on the stock price of particular automakers. This study primarily has two goals in mind. The first goal is to comprehend the share price fluctuations of the chosen firms both before and after the quarterly results are announced. The second goal is to determine the relationship between the company's growing results and share price fluctuations. Four automakers were taken into consideration in this study. For the aim of gathering data, four quarters have been taken into account. The company's website and the BSE website were the sources of the quarterly reports and share price, respectively. Graphs and statistical methods such as simple average and standard deviation correlation have been employed. The share price on both sides was impacted by the quarterly results announcement in this case study. Prices have sometimes dropped following the release of the quarterly results, but in other instances the opposite has occurred. The growth of the companies and the share price prior to the announcement do not significantly correlate.

Udhaya R. (2014). Bombay Stock Exchange Stock Price Reaction to Annual Earnings Announcement. The Bombay Stock Exchange in India provides the secondary market pricing data used in this study. In order to determine how the stock price responded to annual results announcements, data covering the calendar years 2009 through 2013 was examined and a search was conducted for the 30 businesses that make up the Sensex. 150 yearly results announcements from BSE Sensex businesses made up the sample size. The methodology of event study was applied to the data analysis. The announcement window (AD-15 to AD+15) was used in the event study technique. The relevance of the companies exhibiting positive abnormal price movements in the market was tested using the non-parametric Theta test. To determine the market efficiency of the relevant sectors, the data was further examined sector-by-sector. The results of the analysis demonstrate that the BSE and the examined industries have semi-strong efficiency.

Impact of Dividend Announcement on Share Price: An Evaluation Study, M. Selvam et al. (2010). This study concentrated on how an event—such as the announcement of a dividend—affects the price of shares. An essential research instrument in finance and economics is the event study. Measuring the impact of an economic event on business value is the aim of an event study. Event research techniques take advantage of the fact that, given market rationality, an event's impacts will be instantly reflected in security prices. "To examine the Indian capital market's share price response to dividend announcements" Thirty-five companies from various sectors comprised the data. The impact was being analysed using the market model and the capital asset pricing model (CAPM). The writers come to the conclusion that share prices are positively impacted by dividend announcements.

Relationship & Effect of Quarterly Results on Share Price, Vijay H. Vyas (2015). The purpose of this research is to evaluate how quarterly results affect stock prices. Four distinct industries, including the IT, banking, automotive, and fast-moving consumer goods sectors, were selected as samples by the researchers for this study. In order to compare the movement of the mean share price before and after the results, the researchers in this study used the T-test. As a consequence of this test, the null hypothesis is accepted in all sample companies, suggesting that the quarterly results have a significant impact on the share prices of those companies. The relationship between the rise in share prices and the expansion of industry sectors has also been examined by researchers. As a result, most of the firms exhibit a high correlation, indicating that the success of the industry has a greater influence on share prices than does the impact of their financial results.

In 2016, Iqbal Thonse Hawaldar conducted research on Bahrain Bourse's response to the announcement of its annual financial results. The study examines Bahrain Bourse's response to the release of its 2014 annual financial results. Thirty companies form the basis of the analysis. The researcher applied the methodology of event study. Examined are the average abnormal return (AAR) and cumulative average abnormal return (CAAR) performances during the thirty days leading up to and following the annual financial results announcement. AAR statistics are statistically not significant according to runs test, sign test, and t-test statistics. T-values on CAARs, however, have statistical significance. Consequently, the researchers draw the conclusion that Bahrain Bourse is not semi-strong form efficient. The results support the actions taken by authorities to guarantee market efficiency.

RESEARCH OBJECTIVES

1. To analyse the impact of financial performance on stock prices of selected 3 companies of India.
2. To analyse the financial performance of selected companies of India.

Sample Size

In this study below mentioned 3 companies have been analysed

1. Maruti Suzuki India Ltd
2. Reliance Industries Ltd
3. Tata Consultancy Services Ltd

Period of Data Coverage

This study's data coverage period includes the last five years. In particular, the relationship between stock prices and financial performance in the selected 3 companies that were chosen has been evaluated through an analysis of data spanning the years 2018–19 to 2022–23.

DATA ANALYSIS

1. Asset Turnover Ratio (%)

COMPANY NAME	2022-23	2021-22	2020-21	2019-20	2018-19
Maruti Suzuki India Ltd	1.50	1.23	1.00	1.21	1.37
Reliance Industries Ltd	0.59	0.48	0.28	0.35	0.48
Tata Consultancy Services Ltd	1.58	1.39	1.27	1.25	1.24

The Asset Turnover Ratio, expressed as a percentage, is a key financial metric that assesses a company's ability to generate revenue from its assets. It measures how efficiently a company utilizes its assets to generate sales. Let's analyze and provide interpretations for Maruti Suzuki India Ltd, Reliance Industries Ltd, and Tata Consultancy Services Ltd, and then perform a comparative analysis:

Maruti Suzuki India Ltd:
Maruti Suzuki, the renowned Indian automotive company, displayed a consistent increase in its Asset Turnover Ratio over the past five years. In the fiscal year 2022-23, the company achieved an impressive ratio of 1.50%, indicating that for every rupee invested in assets, it generated 1.50% in sales. This suggests efficient asset utilization, possibly due to strong demand for its vehicles and optimized manufacturing processes.

Reliance Industries Ltd:
Reliance Industries, a conglomerate with diverse business operations, has also demonstrated a growing Asset Turnover Ratio over the years. In 2022-23, the company's ratio was 0.59%. While this is lower compared to Maruti Suzuki, it reflects Reliance's sizeable asset base. Despite the lower ratio, Reliance's ability to convert its assets into revenue is notable. This may be attributed to its expansion into various sectors such as telecommunications, retail, and energy.

Tata Consultancy Services Ltd:
TCS, a leading IT services and consulting company, has consistently maintained a healthy Asset Turnover Ratio, with 1.58% in 2022-23. This suggests efficient utilization of its assets, which primarily include human capital and technology infrastructure. TCS's strong client base, innovative solutions, and adaptability to changing market demands contribute to this high ratio.

2. Net Profit Margin (%)

COMPANY NAME	2022-23	2021-22	2020-21	2019-20	2018-19
Maruti Suzuki India Ltd	6.84	4.26	6.01	7.47	8.71
Reliance Industries Ltd	8.34	9.22	13.00	9.17	9.46
Tata Consultancy Services Ltd	20.54	23.81	22.77	25.33	24.40

The Net Profit Margin, expressed as a percentage, is a crucial financial metric that measures a company's profitability by assessing the portion of revenue that remains as profit after all expenses, including taxes and operating costs, have been deducted. Let's analyze and provide interpretations for Maruti Suzuki India Ltd, Reliance Industries Ltd, and Tata Consultancy Services Ltd based on their Net Profit Margins for the specified years:

Maruti Suzuki India Ltd:
Maruti Suzuki, a prominent automobile manufacturer, has displayed fluctuating Net Profit Margins over the past five years. In 2022-23, the company achieved a Net Profit Margin of 6.84%. This represents the profit generated for every rupee in revenue. The drop from the previous year's 4.26% to 6.84% is a positive sign, indicating improved profitability. This could be due to factors such as cost management, product mix, or pricing strategies.

Reliance Industries Ltd:
Reliance Industries, a diversified conglomerate, has shown varying Net Profit Margins as well. In 2022-23, the company's Net Profit Margin was 8.34%. While it has seen fluctuations, the margin is relatively stable. This could be attributed to its diverse revenue streams, which include sectors with different profitability profiles.

Tata Consultancy Services Ltd:
TCS, a leading IT services company, consistently maintains high Net Profit Margins. In 2022-23, the company reported an impressive Net Profit Margin of 20.54%. This reflects TCS's ability to generate significant profit from its operations and underscores its efficiency in managing costs and delivering high-value services to its clients.

3. Stock Price

COMPANY NAME	2022-23	2021-22	2020-21	2019-20	2018-19
Maruti Suzuki India Ltd	8292.65	7559.90	6859.75	4287.75	6671.70
Reliance Industries Ltd	2331.05	2633.95	2003.20	1112.45	1363.05
Tata Consultancy Services Ltd	3205.80	3738.80	3177.60	1823.05	2000.40

The stock price of a company reflects its market valuation and investor sentiment. Let's analyze and provide interpretations for the stock prices of Maruti Suzuki India Ltd, Reliance Industries Ltd, and Tata Consultancy Services Ltd for the specified years:

Maruti Suzuki India Ltd:
Maruti Suzuki's stock price has exhibited a general upward trend over the past five years. In 2022-23, the stock price was INR 8292.65, representing a substantial increase from the previous year. This rise can be attributed to factors such as strong financial performance, increased demand for automobiles, and positive investor sentiment in the automotive industry.

Reliance Industries Ltd:
Reliance Industries' stock price has also shown an upward trend, with some fluctuations. In 2022-23, the stock price was INR 2331.05. The rise is likely due to the conglomerate's strategic moves in the telecommunications and digital sectors, which have garnered investor attention. However, the stock price may have been influenced by various market dynamics and regulatory changes.

Tata Consultancy Services Ltd:
TCS's stock price has seen consistent growth over the years. In 2022-23, the stock price was INR 3205.80, continuing its upward trajectory. TCS's stock performance reflects its status as a leading player in the IT sector, with a strong track record of financial performance, innovation, and market leadership.

4. Impact Of Asset Turnover Ratio (%) On Stock Prices

SUMMARY OUTPUT						
Regression Statistics						
Multiple R	0.478831					
R Square	0.229279					
Adjusted R Square	-0.02763					
Standard Error	956.258					
Observations	5					
ANOVA						
	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	816089.6	816089.6	0.892458	0.414506	
Residual	3	2743288	914429.4			
Total	4	3559378				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	507.7187	3515.423	0.144426	0.894321	-10679.9	11695.36
X Variable 1	3248.707	3438.877	0.9447	0.414506	-7695.34	14192.75

Interpretation

H0: There is no impact of asset turnover ratio (%) on stock prices of selected 3 companies of India.

H1: There is impact of asset turnover ratio (%) on stock prices of selected 3 companies of India.

Multiple R = 0.478831, which indicates that there is no linear relationship between asset turnover ratio (%) and stock prices of selected 3 companies of India. From the ANOVA table, it can be seen that p-value is 0.414506 which is higher than specified α of 0.05. So null hypothesis is accepted and it concluded that there is no impact of asset turnover ratio (%) on stock prices of selected 3 companies of India.

6. Impact of Net Profit Margin (%) On Stock Prices

SUMMARY OUTPUT						
Regression Statistics						
Multiple R	0.785621					
R Square	0.6172					
Adjusted R Square	0.4896					
Standard Error	673.9264					
Observations	5					
ANOVA						
	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	2196847	2196847	4.836987	0.115246	
Residual	3	1362530	454176.8			
Total	4	3559378				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	13238.39	4300.236	3.078526	0.054198	-446.88	26923.66
X Variable 1	-709.952	322.806	-2.19932	0.115246	-1737.26	317.3606

Interpretation

H0 : There is no impact of net profit margin (%) on stock prices of selected 3 companies of India.

H1 : There is impact of net profit margin (%) on stock prices of selected 3 companies of India.

Multiple R = 0.785621, which indicates that there is linear relationship between net profit margin (%) and stock prices of selected 3 companies of India. From the ANOVA table, it can be seen that p-value is 0.115246 which is higher than specified α of 0.05. So null hypothesis is accepted and it concluded that there is no impact of net profit margin (%) on stock prices of selected 3 companies of India.

CONCLUSION

In conclusion, the stock prices of the three selected Indian companies, Maruti Suzuki India Ltd, Reliance Industries Ltd, and Tata Consultancy Services Ltd, have shown distinct trends over the past five years, each influenced by various industry-specific and company-specific factors. While it is essential to acknowledge the significance of both the Asset Turnover Ratio (%) and Net Profit Margin (%) in financial analysis, it is evident that these metrics alone do not directly determine or correlate with the stock prices of these companies. Firstly, regarding the Asset Turnover Ratio (%), it is apparent that fluctuations in this ratio across the years do not appear to have a direct and linear impact on the stock prices of these companies. The stock prices are influenced by a broader spectrum of factors, including market sentiment, industry trends, company performance, and external economic conditions. Maruti Suzuki, Reliance Industries, and TCS have each experienced stock price growth or stability irrespective of variations in their asset turnover ratios, demonstrating that stock market valuations are more intricate than a singular financial metric. Secondly, the Net Profit Margin (%) also does not demonstrate a straightforward cause-and-effect relationship with the stock prices of the selected companies. While profitability is an important indicator of a company's financial health, it is not the sole driver of stock price movements. The stock prices of these companies reflect a multitude of factors, including investor sentiment, competitive positioning, growth prospects, and broader economic trends. In financial analysis, it is crucial to consider a holistic approach that takes into account various financial and non-financial indicators when assessing the investment potential of a company. The relationship between financial metrics and stock prices is complex and often influenced by numerous external variables. Ultimately, investors and analysts should use a comprehensive set of tools and information to make informed investment decisions, considering not only financial ratios but also market dynamics, industry context, and company-specific strategies and developments.

When comparing these companies, it's evident that Maruti Suzuki and TCS have higher Asset Turnover Ratios, indicating more efficient asset utilization. Maruti Suzuki excels in the automotive industry, while TCS performs well in the IT and consulting sector. On the other hand, Reliance, with its diversified operations, has a lower ratio but still efficiently generates revenue from its substantial asset base. Comparing these companies, it's evident that TCS consistently leads with the highest Net Profit Margin, highlighting its strong profitability. Maruti Suzuki and Reliance Industries have lower Net Profit Margins, with Reliance being the more stable of the two. TCS's high Net Profit Margin can be attributed to the IT sector's relatively low operating costs and strong demand for its services, which often have high-profit margins. In contrast, companies in capital-intensive industries like automotive (Maruti Suzuki) or those with diverse operations like Reliance Industries may experience lower but stable Net Profit Margins. It's apparent that TCS has experienced the most consistent and robust growth in stock value. This may be due to its leadership in the IT services sector and the increasing demand for technology and digital services. Maruti Suzuki has also seen significant stock price growth, especially in recent years, reflecting the resurgence in the automotive industry and its ability to capitalize on market opportunities. Reliance Industries has shown growth as well, but it has experienced more fluctuations, likely influenced by its diversified business portfolio, regulatory changes, and shifts in investor sentiment.

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