

Impact Of Fundamental Factors On The Share Price Movement Of Indian It Stocks

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Abstract-

The stock market is the barometer of the Indian economy. Trading in the Stock market is subjected to market risk, and therefore returns can be affected, although it provides diversification to the portfolio of Retail investors, HNI & FII clients. The investment pattern of each category affects the growth of the country. As investments reduced due to risk aversion factor, the GDP fall to 5 percent for Q1 FY19, which is the least of the six years as per the annual report of RBI, resulting in a domestic slowdown in Q2 FY19.

This research work aims to study the blow of an assortment of fundamental factors like – EPS, DPS, Net worth, P/E Ratio, Current Ratio on the share price movement of Top 5 performing IT sector stocks listed on the Indian stock exchange. So, the long-term investors should look on to the fundamentals and invest wisely to earn even in the current economic slowdown situation of FY 19. The results suggest that these two factors affect most of the share prices, namely- EPS and P/E Ratio.

Keywords-Stock market, Indian stock exchange, Fundamental factors, EPS, P/E Ratio

1. INTRODUCTION

1. Conceptual Framework

1.1-Industry Profile-

The Indian IT Sector is the largest employer in the Private sector. As per IBEF, the growth in the IT sector was US\$ 181 billion in 2018-19, and the export revenue also increased to US\$ 137 billion in 2018-19.

All top-rated IT Firms have diversified their business and offer services in the block chain, artificial intelligence using innovation hubs, research, and development centers to make themselves different in terms of offerings.

Even the market capitalization of the IT firms is one of the largest as compared to other firms and sectors.

Table 1- Market Capitalization –

Sl. No.	Company	Market Capitalization ((₹ in Cr.)
1.	TCS	771, 752.96
2.	Infosys	333, 156.88
3.	HCL Tech	141242.06
4.	Wipro	135076.64
5.	Tech Mahindra	69340.50

1.2- Stock Exchange-

“Stock exchange is a place where securities are listed and traded. In India, two major exchanges in terms of volume where trading is done are NSE & BSE. The mechanism, trading hours & settlement process is the same at both the exchanges. The BSE is the oldest exchange and is since 1875, although NSE is in existence since 1992. There are around 4736 firms listed on BSE and 1384 on NSE as of 2019.”

1.3 -Stock Market Index-

The stock market index represents all the sectors of the economy. It is a weighted average of selected stocks representing all the listed companies in a country. This return of the index is also considered as a benchmark return for other listed companies and mutual fund portfolios. “SENSEX & NIFTY are the two major broad market indices where highly liquid stocks are listed. This index also acts as a benchmark for various portfolio and mutual fund schemes.

The BSE SENSEX consists of 30 stocks, and NSE NIFTY consist of 50 stock covers all the sectors of economy broadly. These indexes are also termed as a barometer of the economy. To compare and set a benchmark for IT sector companies, the Nifty IT Index can be considered most important and preferred.

1.5-Fundamental Factors-

Companies need to get listed on the exchange to issue securities to the general public for raising funds. The value or market price of companies changes daily. There are various fundamental factors that impact the share price movement: -

1. Earning Per Share (EPS)-

The Economic times defines Earnings per share as profitability per share of any company calculated by dividing profit after tax by No. of outstanding shares. The higher the EPS per share, the more will be the chances of the share to increase.

2. Dividend per Share (DPS)-

"Dividend per share (DPS) is the total sum of the dividends attributed to every single outstanding share of a company" (Tim Vipond, 2016).

Dividends per share are the profit share of the business, which the owners of the enterprise distribute at the current market price.

3. Price Earning Ratio (P/ERatio)-

The ratio of earning Price is used to identify that the share is undervalued or overvalued. It depicts the demand of share concerning per unit of Profit. The PE ratio is based on a market price division by share. The PE ratio cannot be measured independently. It is essential to compare the PE ratio of the industry. The share is surplus and vice versa if the PE ratio of the company is over the industry.

4. Net worth (Book value)-

Net worth is the business and liability indicator. The balance sheet demonstrates this. The financial gap between assets and liabilities exists. The Net worth is positive if the value of the asset exceeds that of the liabilities. In other words, all less immaterial capital, savings, and surplus are included. This is the long-term solvency calculation of the business.

5. Current ratio-

This ratio helps to identify the short-term solvency of the firm. It measures the ability to meet the short-term liabilities of the firm. It includes the assets and liabilities of less than a year. It is a measure to check the liquidity profile through the firm's repaying capacity of all the outstanding expenses and debt. Also, it shows the management of working capital and efficiency of the operating cycle.

Thus, the current ratio is a ratio to identify any company's short-term liquidity position and determines the working capital requirement.

2. REVIEW OF LITERATURE

Taimur Sarif et al. (2015) Analysis of the factors driving stock price movement. Return on equity, book value per stock, price ratio, and market capitalization have been closely associated, but dividend yields and market price per share have been no meaningful correlation.

Qaisi et al. (2016) Factors affecting the market prices of insurance firms were developed from 2011 to 2015. They have applied many regressions and have built significant connections between ROA, ROE, debt ratios, company size, and stock prices other than ROE.

Sukhija (2014) there were proven and interbank variations examined in the nature of stock price variables. They also found that book value and DPS play an essential role in affecting bank and financial company stock prices. For oil and mining firms, the P/E ratio, the book value, growth, and coverage ratios are essential.

Islam et al. (2015) Added factor analysis and proposed five factors viz. The industry's efficiency, market impact, company's success, investment decision, and financial position. They also found that the EPS is closely related to the stock price.

Tabotnow et al. (2016) the shares of South African companies were investigated in the DPR, ROE, ROA, Size, Liquidity, and Business Risk links. Following a multiple regression analysis, they found that 58.7 percent of the share prices shifted at DPS, EPS, and P/E ratios. The correlation between EPS and EPS is also good.

Samina Haque and Murtaz Faruque (2013) investigated the effect of the fundamental factors on the stock price of securities of Dhaka Stock. They noticed that the key factors in stock prices are highly sensitive. Overestimated inventories and further unauthorized impact of knowledge.

Geeta (2015) such factors are measured for upward and downward movements of stocks. Positive conations such as book value, EPS, P/E ratio were found in the following parameters. They also pointed to the value of the stock market from both points of view.

Singh Ankita (2013) Examined the method to assess stock market prices in India, the USA, and the UK economies. She found that the three critical factors influencing any stock market are an investment, savings, and inflation.

Niladiri et al. (2009) There were essential factors and affected price movements in the industry. The positive effects of profitability, ROI, and growth potentials on stock prices were seen. However, uncertainty and increased risk have adverse effects.

Godwin et al. (2019) Financial factors affecting Nigeria's stock prices have been inspected by deposit money banks. They had an important and positive link to the price sharing and the negative correlation between book value and dividend.

Amanullah (2019) Different elements were examined and their relation to the Karachi stock exchange system. There have been numerous hypotheses about the data collected and a broad and optimistic GDP, dividend, and P/E price movement analysis. It was examined. However, the rates of interest and book value have a significant influence.

Alaagam (2019) Detailed relationships between the Net Profit Margin, ROA, ROE, and the Saudi Arabia Banks' share of profits. He used an autoregressive lag model distributed and found no correlation between profitability and share prices. Yet short-term ROA and share prices operate.

Avdalovic (2017), the key drivers of stock prices were included in the Belgrade stock exchange. From 2010 to 2014, data for 42 companies have been analyzed by regressive paneling data. ROA, leverage, EPS, BV, P/B were considered critical in stock price forecasts.

3. RATIONALE OF THE STUDY

The stock market has a dynamic character, and the research results are often changing; the study must be performed periodically. As before, several other technical factors such as inflation, replacements, demographics, patterns, liquidity, and investor sentiments, which could affect share prices, are examined. There have also been very few research on main variables. This study is conducted to understand the effect of fundamentals on Indian stock exchange share prices of listed IT resources.

4. OBJECTIVE OF THE STUDY

To study the impact of fundamental factors like DPS, EPS, Net worth, P/E ratio, Current ratio on the share prices of Top 5 Indian IT stocks Listed on the Indian stock exchange.

ii. Methodology-

1. The Study-

The study is empirical in nature.

2. The Sample-

The sample is the last 5 years of quarterly closing prices of selected stocks from the IT sector, namely-TCS Ltd, Infosys Ltd, Wipro Ltd, HCL Technologies Ltd & Tech Mahindra Ltd from FY2014 to FY2019.

3. Tools For Data Collection-

The data is secondary in nature. Hence, it has been collected from the official website of Bombay Stock Exchange (BSE), Annual reports of the top 5 Performing IT Sector companies, measured by market capitalization.

4. Tools For Data Analysis-

Reasonable methods of analysis are used for the analysis of data. Multiple regression analyses are used under statistic tools. Standard deviation, correlation coefficient, and linear

HYPOTHESIS-

H01= OVERALL has no material impact on TCS Ltd's share price.

H02= EPS does not have an important influence on TCS Ltd's share price.

H03= The impact of DPS on TCS Ltd's share price is not relevant.

H04=The influence of NETWORTH on the share price of TCS Ltd is not relevant.

H05= The effects of P/E RATIO on TCS Ltd's share price are not relevant.

H06= The impact of CURRENT RATIO on TCS Ltd's share price does not become important.

H07= OVERALL does not have a major impact on Infosys Ltd stock price.

H08 = EPS has no major impact on Infosys Ltd's share price.

H09= DPS does not have a big impact on Infosys Ltd's share price

H010=NETWORTH has no major impact on Infosys Ltd's share price

H011= The impact from P/E RATIO on Infosys Ltd's share price is not relevant

H012= CURRENT RATIO does not have a major impact on Infosys Ltd's share price

H013= The impact of OVERALL on Wipro Ltd's share price is not relevant.

H014= EPS has no material effects on Wipro Ltd's share price.

H015= DPS has no significant influence on Wipro Ltd's share price.

H016=The influence of NETWORTH on Wipro Ltd's share price is not relevant.

H017= The impact of P/E RATIO on Wipro Ltd. share price is not relevant.

H018= CURRENT RATIO has no major impact on Wipro Ltd's share price.

H019= OVERALL has no major effects on HCL Tech Ltd's share price.

H020= EPS has no major impact on HCL Tech Ltd's share price.

H021= DPS has no major influence on HCL Tech Ltd's share price.

H022=NETWORTH has no relevant effects on HCL Tech Ltd's share price.
 H023= The P/E RATIO's impact on the HCL Tech Ltd share price is not relevant.
 H024= The impact on HCL Tech Ltd's share price of CURRENT RATIO is not relevant.
 H025= OVERALL has no material impact on Tech Mahindra Ltd's share price.
 H026= EPS does not have a major impact on Tech Mahindra Ltd's share price.
 H027= DPS has no major impact on Tech Mahindra Ltd's share price.
 H028=NETWORTH has no major impact on Tech Mahindra Ltd's share price.
 H029= The impact on the share price of Tech Mahindra Ltd of P/E RATIO is not relevant.
 H030= The impact of CURRENT RATIO on Tech Mahindra Ltd's share price is not essential.

This null hypothesis has been accepted if the p-value is greater than 0.05 and rejected if the p-value is lesser than 0.05. So, if the null hypothesis is rejected, it means we have accepted the alternative hypothesis.

5. RESULTS & ANALYSIS-

This hypothesis has been tested for all 5 companies: -

Table-3: - P-Value Table-

NULL HYPOTHESIS	FACTOR	TCS	INFOSYS	WIPRO	HCL TECH	TECH MAHINDRA
HO ₁	OVERALL	0.00218	0.00004	0.20273	0.00000	0.00017
HO ₂	EPS	0.01	0.39	0.05	0.00	0.00
HO ₃	DPS	0.01	0.88	0.29	0.06	0.70
HO ₄	NET-WORTH	0.55	0.13	0.74	0.51	0.43
HO ₅	P/E RATIO	0.00	0.00	0.02	0.00	0.00
HO ₆	CURRENT RATIO	0.02	0.22	0.34	0.85	0.76

Accept /Reject Null Hypothesis-

1.TCS-

HO1= is dismissed since the p-value is below 0.05, which indicates that the OVERALL co-impact on TCS ltd. The share price of all variables is important.

HO2 = The P-value is rejected as less than 0.05, which indicates that EPS has a big effect on TCS Ltd's share price.

HO3 = the p-value of HO3 is less than 0.05 and indicates that the DPS has a significant effect on TCS Ltd's share price.

HO6 = As the p-value is more than 0.05, HO4 is agreed, which indicates that NETWORTH does not have a substantial effect on TCS Ltd's share price.

The P/E RATIO value is less than 0.05, demonstrating that P/E RATIO has an important effect on TCS ltd share price.

As the p-value is less than 0.05, HO6 is rejected, demonstrating that the effect of CURRENT RATIO on TCS Ltd's share price is substantial.

REGRESSION EQUATION-

$$Y=0.009786926+0.242953738 x_1+0.184097249 x_2+0.21744753 x_3+0.186936314 x_4+0.516123133 x_5$$

2. INFOSYS.

HO7 = Z Since p is below 0.05, the is rejected, which indicates that, when Total is combined, all variables have a major impact on the share price of Infosys. The p-value

HO8 = The p-value was over 0.05, which means the impact of EPS on the stock price of Infosys ltd is not relevant.

HO9 = since the p-value is above 0.05, it is recognized that the Infosys ltd stock price does not have any significant impact on the DPS.

HO10 = The p-value p of, which indicates that the impact of NETWORTH on the share price of Infosys ltd is not significant, is permitted.

HO11 = As the p-value is below 0.05, it is refused, and the P/E-RATIO has a significant impact on the equity price of Infosys Ltd.

HO12 = Since the p-value exceeds 0.05, it is recognized, suggesting CURRENT RATIO is of no significant impact on the share price of Infosys Ltd.

REGRESSION EQUATION-

$$Y=0.027522588+0.055024624x_1+0.012270853x_2+0.408862652x_3+1.013104289x_4+0.193189662x_5$$

3. WIPRO-

HO13 = is acknowledged since the p-value of 0.05 is greater than, which means that the total value does not have any major effect on Wipro Ltd's share price.

HO14 = The p-value is below 0.05, and hence the effect of Wipro ltd on EPS' share price has been shown to be necessary.

HO15 = is agreed as the p-value is more than 0.05, indicating that DPS has no big effect on Wipro Ltd's stock price.

HO16 = The value is acknowledged because p is more than 0.05, indicating that the NETWORTH does not significantly affect Wipro Ltd's share price.

HO17 = is denied because the p-value is less than 0.05, which means that the P/E RATIO's effect on the stock price of Wipro ltd is important.

HO18 = The p-value is more than 0,05, and this indicates that the CURRENT RATIO does not have a major effect on Wipro's stock price.

REGRESSION EQUATION-

$$Y=0.014546158+0.396363087x_1+0.08278632x_2+0.178685407x_3+0.345386256x_4+0.394058731x_5$$

4. HCL TECHNOLOGY-

HO19 = The P-value is rejected, which indicates that all variables have a major effect when Total is combined on HCL Technologies ltd share prices.

HO20 = the p-value is less than 0.05 and indicates a substantial effect by EPS on HCL Technologies Ltd's share prices. is rejected.

HO21 = is approved, as the p-value reaches 0.05, which indicates that DPS does not substantially affect HCL Technologies Ltd's share prices.

HO22 = H023/ As the p-value reaches 0.05, it is acknowledged, which indicates that NETWORTH has no major effect on HCL Technologies ltd stock price.

HO23 = is denied as the p-value is less than 0.05, which suggests that P/E RATIO significantly affects HCL Technologies Ltd's share price.

HO24 = shall be acknowledged because the p-value is greater than 0.05, indicating that CURRENT RATIO does not significantly affect the HCL Technologies ltd share price.

REGRESSION EQUATION-

$$Y=0.004414701+0.944138265x_1+0.021376441x_2+0.027328551x_3+1.025819541x_4+0.003131518x_5$$

2. TECH MAHINDRA-

HO25 = is denied as the p-value is less than 0.05, which indicates that when Total co-exists on the share price of Tech Mahindra Ltd, all variables have a substantial effect.

HO26 = is rejected as the p-value is less than 0.05, suggesting that EPS has a major effect on Tech Mahindra Ltd's equity price.

HO27 = As the p-value is more than 0.05, the is acknowledged, which means that the share price of Tech Mahindra ltd does not have a major effect on DPS.

HO28 = is acknowledged because the p-value reaches 0.05, which implies that NETWORTH does not greatly affect Tech Mahindra Ltd's share price.

HO29 = The p-value is denied, which indicates that the P/E RATIO has a significant effect on the share price of Tech Mahindra Ltd.

HO30 = is acknowledged because the p-value is greater than 0.05, indicating that CURRENT RATIO does not significantly affect Tech Mahindra ltd share price.

REGRESSION EQUATION-

$Y=0.024632566+0.989478678x_1+0.016521992x_2+0.427114382x_3+0.959564005x_4+0.072242534x_5$

6. SUGGESTIONS & CONCLUSIONS

Suggestions-

- Investors should be given proper guidance by advisory firms, banking institutions regarding constructing portfolios to have a sustained level of risk and return; also, they should consider the fundamentals as a major factor for deciding.
- Also, they should be aware of the malpractices like circular trading and should prevent themselves from engulfing in such frauds as artificial trading, where rigging of stock prices occurs.
- P/E Ratio and Earning per share must be seen before investing in stocks. They are the valuation parameters of any firm. A higher P/E ratio indicates overvaluation of stock, which means that investors expect high growth in stock prices in the future, i.e., higher earnings and vice-versa.
- It is essential to look at what business the company is into, its financial statements, cost of capital, capital structure, management people, brand image, and history so far before putting money into it.

Conclusions-

It can be inferred from the above study that current market prices in Top performing IT inventories are most influenced by these two key factors: EPS & P/E Ratio. Thus, before investing his hard-earned money, long-term investors should look into each perspective. THERE WERE SIGNIFICANT IMPLICATIONS between EPS, DPS, P/E ratio, and the current share price relationship.

Networth's impact on stock prices was not. The R2 of all inventories is also over 60%, and hence it indicates that the above model is ideal for research except for Wipro Ltd.

In the form of a total of 30 null hypotheses, the effect of the abovementioned variables on the share price movement of IT inventories was found to have been rejected, and 15 null hypotheses were accepted.

Implications-

For Investors-

1. They need to be more updated about what's happening around the news and learn to imply past experiences and historical results. Also, they should look at the technological

updates and innovations that top companies will adopt, especially in the case of IT stocks, before investing.

1. The Directors should understand the Financial Statements, Management & Discussion Review Report, know their future plans, listen to different analysts' call information on their goods and services, and their clients worldwide. They should read and understand their customers' reports. Regarding all the essential elements, in particular EPS & P/E ratios, my finding would allow investors to make proper decisions in investments.

• *For Researchers-*

1. Results may vary as with time, maybe with different types of tests applied, but these IT stocks fundamentals are essential factors to be considered. Other researchers may view other technical aspects; they can discover some new relationships between factors by taking this paper find as a base.

2. EPS & P/E Ratio should never be neglected even if the other researchers consider other factors.

Limitations-

The paper is limited to only fundamental analysis for a long-term investor of the top 5 performing IT stocks listed on the Indian Stock exchange. Short-term traders should, however, look on to technical analysis for trading purposes. This testing is limited to the Indian stock exchange; other factors may be considered while analyzing for other exchanges in the world. Also, the research is restricted to the performance of the IT sector, although other sectors can be taken at a glance for investment purposes.

Scope-

It will be helpful & beneficial to long-term investors to understand the potential and strength that the top-performing IT Companies hold and help them make an investment decision.

Researchers can further cite this paper for studying the same aspects again, and finding something crucial that is missing in this paper may be in terms of more parameters to be considered.

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