

Impact of Earnings Per Share on Market Price of Share with Reference to Selected Banks on S & P BSE Sensex

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ABSTRACT - The price of equity shares mainly depends on demand and supply. Share prices constantly fluctuates with its buying and selling. Many factors like Govt. policy, price earnings ratio, interest rate, inflation, exchange rate, dividend yield, industry's performance affect market price of equity shares (MPS). Earnings per share is one of the most influencing variable. The study is undertaken to find whether the earning per share has any effect on the market price of equity shares. The researcher has taken 6 banks from S & P BSE Sensex. The data is collected from BSE for the period of 2017 to 2019. In present study correlation, Linear multiple regression models and ANOVA have been selected to measure the effect of EPS on MPS. The empirical finding shows a positive correlation between the independent variable EPS (correlation coefficient = 0.791) and dependent variable MPS. It is also significant at 10% level of significance. The analysis indicates that the market price of the banks is moved by earning per share.

Key words: Earnings per Share, Market Price, S & P BSE Sensex.

I. INTRODUCTION

A company can raise long term funds by issuing of Equity shares through the IPO (public offer), or through the secondary market where existing shares are to be traded. Secondary market is also known as Stock market. The stock market plays an important role in Economic growth of a company. It is essential to analyze the basic factors which influence the market price of shares. In India Bombay Stock Exchange and National Stock Exchange are available for trading of shares. S&P BSE Sensex is one of the major index of BSE so in this research the banks listed on S&P BSE Sensex have been selected. In equity market, there are many factors that affect the market value of shares. The EPS is one of the important variable which affect the market price of shares. EPS is an important financial tool which measures the profitability of a company. It is also useful for investors to measure the profitability of a company before buying or selling shares of any company. So the present study attempts to find out impact of EPS on Equity Share prices and also study the relationship between EPS and MPS.

II. REVIEW OF LITERATURE

Many studies have been conducted to find out determinants of market price of shares in different countries.

- Mr. Sanjeet Sharma (2011) determined the relationship between equity share prices and explanatory variable like book value per share, dividend per share, Earning per share, dividend yield, and dividend pay-out for the study period 1993-94 to 2008-09. The results found that EPS, DPS and BV has significant impact on MPS.

They are the strongest determinants of market price so the results support liberal dividend policy.

- Bhatt Pushpa & JK Sumangla, (2012), in their research examined on equity share price. They took 50 companies as per market capitalization for 5 years from 2006-07 to 2010-11. The study reveals that EPS impacts the market prices of the shares in the Indian context.
- Dr. Al-Rjoub, Dr. Al-Qudah, Dr. Alfawaerah (2013), examined the relationship between the EPS & the market stock return with the current accounting earnings in the Amman Stock Exchange (ASI), after tested data of 26 industrial companies for the study period 2006 to 2010. Researchers found the ability of each variable of the change in earnings per share.
- Dr. Mohamad Abdelkarim Almumani (2014) studied the quantitative factors that influence share price for listed banks in Amman Stock Exchange. He took over the period 2005-2011 for empirical analysis of set of independent and dependent variables. His findings shows that there is a positive correlation between the independent variable MPS. Moreover, the study shows a significant relationship between BV and MPS only the variables DPS and DP have insignificant impact on MPS.
- Bala Krishnan K.P. (2016), tried to find out the impact of EPS, dividend per share, PE ratio on the market price of selected industry. The study reveals that EPS of Pharmaceutical sector are having co relation with share prices of Dr. Reddy, Ranbaxy, Sterling and Torrent. Dividend per Share is also impact on market prices of three companies like Dr. Reddy, Sterling and

Torrent. At last, the research helps the investors to take decisions whether to buy or sell the securities.

- S. Gangadhara and K Janardhanam (2016), in their research analyzed the Earnings per Share as a fundamental factors in influencing the stock price. The researchers tested and accounting profit (or EPS) for the stock's firms in the financial market. The study is stated that if the stock prices follow mean reversion in the long run, the price movement will be predictable from the movements in the fundamental values.
- Neha Jain, Kanchan Bajaj (2017), in their study tested Impact of earning per share on market price of share with selected companies from NSE Nifty. The researcher choose 5 companies from 5 sectors for the study period 2008 to 2017 The study concludes that share price of most of the companies is affected by independent variable EPS.
- Dr. Pankaj Kumar (2017), has studied the impact of earning per share and price earnings ratio. The market price of share of company. The researcher has taken market price of price as a dependent variable, while earning per share and price earnings ratio are dependent Variable. They selected 8 companies of auto sector based on Nifty auto indices from 2011-12 to 2015-16. The study concludes that earning per share is found to be a very strong forecasters of market price of share.
- Dr. Nandan Velankar, Ankita Chandani & Amanpreet Kaur Ahuja (2019), studied impact of EPS and DPS on stock price for the time period of 2006-07 to 2014-15 (9years). Researchers has attempted to analyze the impact of two specific internal factors EPS and DPS on stock price. Dickey Fuller test was used for unit root testing to check the stationary of the time series data. The study says that there is a significant impact of EPS and DPS on stock price.

III. RESEARCH METHODOLOGY

Research Methodology is a systematic plan to get answer for the research problems.

3.1 Objectives of the study:

The main objectives of the study are,

- To examine the effect of Earnings per share on Market price of selected banks of S&P BSE Sensex.
- To discover whether independent variable EPS and dependable variable market price are associated or not.

3.2 Hypotheses of the Study:

The present study tries to find out the impact of EPS on MPS of selected banks.

Based on the above stated objectives the hypothesis can be framed as:

- H_0 = There is no significant impact of EPS on market price of selected 6 banks.
- H_0 = There is no significant relationship between EPS and Market Price of selected 6 banks.

3.3 Need of Study:

The main aim of the study is to find out the relationship of EPS and share prices of selected banks. The study enables to identify whether any relationship between EPS and NPS or not. From this study, actual and potential investors can make an appropriate investment decisions.

3.4 Research Design:

Research design is a blue print of methods and procured carried out of research. It is a descriptive and exploratory type research which is designed to gather descriptive information and is provided it to find out the relationship between NPS and EPS of selected banks on S&P BSE Sensex.

3.5 Sampling Design:

Non-probability sampling techniques is used for the study. Sample banks are selected based on convenience of the researcher, where data is available for a period of 3 years. The samples are selected from the banking sector listed on S&P BSE Sensex. The samples include Axis Bank, ICICI bank, SBI, HDFC Bank, Kotak Mahindra bank and IndusInd bank. The EPS of every bank has taken annually after the end of the calendar year. The objectives of the study have been carried out through the use of secondary data. Secondary data is collected from various sources namely Money Control.com, Financial new papers, Journals and BSE Website. The data has been compiled for fulfil the objectives of the study.

The financial and statistical tools are used to analyze the data to know the impact of EPS on MPS during the study period. Mean standard deviation, Co-efficient of correlation and simple linear program analysis and ANNOVA are applied on data through SPSS 20.

Regression equation is developed to test objectives. It is as follows:

Regression Model

$$(MPS) Y = \beta_0 + \beta_1 X_1 (EPS) + \epsilon$$

Where,

MPS = Share Price (dependent variable)

EPS = Earnings per share (Independent variable)

β_0 = Intercept for X variable of I banking company

β_1 = regression coefficient

ϵ = the error term to test the significance of regression coefficient,

3.6 Limitation of the Study:

The present study is a result of empirical research on secondary data which is taken from published sources. Researcher has taken only 6 banks from banking sector. Period of the study and used of ratio analysis for EPS have its own limitation. Researcher has taken single variable EPS for analyzed the objectives, other internal and external

factors are not considered in this research which also affect the MPS.

IV. DATA ANALYSIS

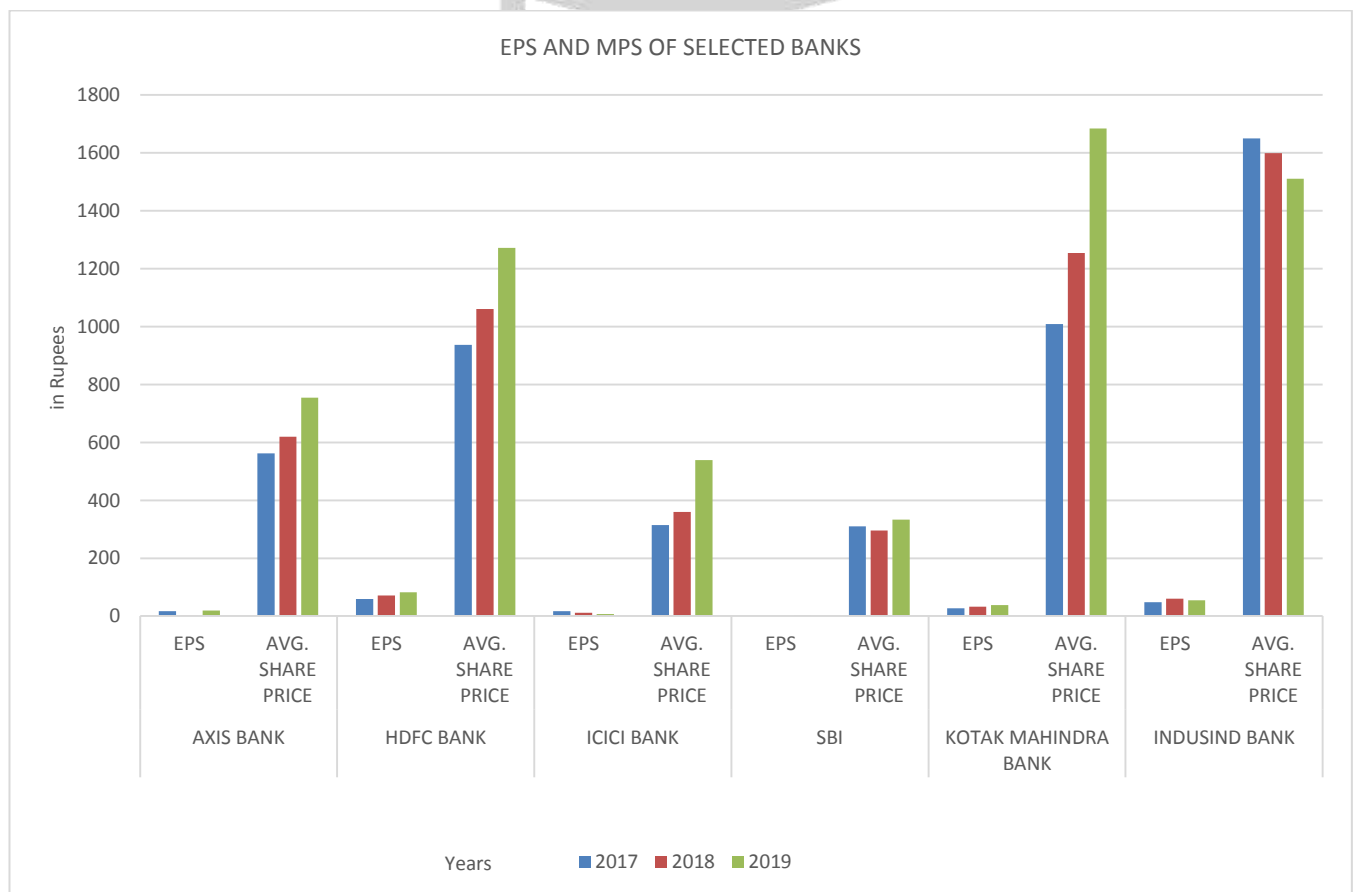
First, researcher has applied Pearson correlation to check linear association between EPS and MPS of selected banks. Value of correlation will always lie between -1 and +1.

Table No. 4.1

EPS AND MPS OF SELECTED BANKS (in rupees)

	AXIS BANK		HDFC BANK		ICICI BANK		SBI		KOTAK MAHINDRA BANK		INDUSIND BANK	
	EPS	AVG. SHARE PRICE	EPS	AVG. SHARE PRICE	EPS	AVG. SHARE PRICE	EPS	AVG. SHARE PRICE	EPS	AVG. SHARE PRICE	EPS	AVG. SHARE PRICE
2017	16.51	562.4	59.53	936.78	17.1	314	0	309.5	26.84	1009.1	47.95	1650.25
2018	1.78	619.8	71.33	1061.23	12	360	0	295.65	32.54	1254.75	60.08	1599.05
2019	19.59	754	82	1271.8	6.6	538.75	2.58	333.7	37.74	1684.5	54.77	1510.6

Figure: 4.1



In order to summarize the above table and figure, classification of bank's EPS, it is clear that IndusInd bank gained first rank position in EPS, later on Kotak Mahindra Bank's EPS also shows increasing trend. On contrary SBI bank gained last position among other banks with few EPS in two years. On 1st April, 2017, the big merger in the history of banking industry in India. The SBI has been merged with its associated banks i.e. State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore, State bank of Bikaner & Jaipur, Bhartiya Mahila Bank. We can clearly see the challenges faced by SBI after merger through its financial performance. Before merging the associate banks were having NPA. SBI was facing the instability value in the net profit after merger. So EPS was very low. Kotak Mahindra Bank has been shown strong performance and became second most valuable bank in India after HDFC bank gets March quarter. According to Rajesh

Mascarenhas, ET Bureau, April 17, 2018 Kotak Mahindra Bank shares have rallied 33% in the 2017-18, compared to a 15% decline in the SBI stock. Private sector lenders HDFC bank and Indusind Bank have grown 30% each over the past year.¹

Table: 4.2

Descriptive Statistics

	Mean	Std. Deviation	N
Share price	892.5483	516.83219	6
EPS	30.4967	27.38079	6

The above tables give the details of mean and standard deviation of Share Price and Earning per share of the sample companies of all the 3 years from 2017 to 2019 under study.

Table: 4.3

Correlations

		MPS	EPS
Pearson Correlation	Share price	1.000	0.791
	EPS	0.791	1.000
Sig.	Share price	.	0.031
	EPS	0.031	.
N	Share price	6	6
	EPS	6	6

Above table shows that the significant correlation is 0.791 because value is falling between -1 and +1, Correlation shows that EPS and MPS are closely related. Therefore we can say that the Correlation is significant at the 0.05 level of significance (1-tailed).

For further analysis regression equation is used to find out the impact of EPS on MPS with reference to 6 selected banks. The following table indicates the relationship between EPS and MPS for the selected banks in study period. For regression Y is taken as a dependent variable (MPS) and X is taken as an independent variable (EPS).

Table: 4.4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.791 ^a	.625	.532	353.68994	.625	6.676	1	4	.061	1.024

a. Predictors: (Constant), EPS

b. Dependent Variable: MPS

The R-square in the model is 0.625. It clearly indicates if there is change in EPS, there will be 62.5% change in the MPS of banks. It shows the volatility on market price of shares. The adjusted R-square demonstrates that 53.2% of the variances between dependent and independent variables in this model.

Findings from the table 4.4 indicates that, the F is about 6.676. The result suggests that the explanatory variable is significantly associated with the dependent variable. They prove that EPS strongly determine the behaviour of market price of shares. Further, the value of Durbin Waston test is 1.024 which means that the error term is independent and also free from auto correlation.

¹ JP Morgan

Table 4.5

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	835191.284	1	835191.284	6.676	.061 ^b
Residual	500386.292	4	125096.573		
Total	1335577.576	5			

a. Dependent Variable: MPS

b. Predictors: (Constant), EPS

Moreover, Table 4.5 also shows a significant relationship between banks EPS and MPS. Calculated table value of F is 6.676 and the p-value associate with F-value is 0.061 which is less than 0.1 so null hypothesis is rejected. Therefore we can say that the co-efficient of EPS is significant at 10% of level of significant.

Table: 4.6

Co-efficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	437.336	227.787		1.920	.127	-195.103	1069.774
EPS	14.927	5.777	.791	2.584	.061	-1.112	30.966

a. Dependent Variable: share Price

The regression equation is S.P. =437.336 + 14.927 EPS

The coefficient of EPS is 14.927, it shows positive relationship between MPS and EPS, moreover P value is 0.061 is less than 0.1 therefore we can say that the co-efficient of EPS is significant at 10% of level of significant

prices. Managers also use the EPS for forecasting the budget and to allocate the financial resources. Moreover, the study is suggested that Govt. should take steps to increase the industrial production and established such policies like to reduce NPA, to control the inflation in country because both have negative impact on share prices. Future research on this topic can be conducted with longer time of period.

V. CONCLUSION & RECOMMENDATION

The aim of the study is to examine the impact of EPS on stock prices of selected banks. The finding shows that EPS has positive and significant relationship with MPS. Many internal and external factors affect the MPS of selected banks. Among them EPS is having importance to investors who trade in stock market. The higher EPS shows the profitability of the company. The present works clinches that for the six banks undertaken for the research are Axis Bank, ICICI bank, SBI, HDFC Bank, Kotak Mahindra bank and IndusInd bank. All 6 banks are listed on S&P BSE Sensex. It has been concluded by testing hypothesis, there is a significant effect on EPS on MPS of all 6 banks in India. Share price of banking companies reflects the value of anticipated future profit. For investors, the EPS can tell them the soundness of a company has for increasing its existing dividend. EPS is always considered a trustworthy tool to make prudent investment decision for steady source of income. The results of the study can be useful for researcher also to study the volatility of share prices while analysing the stock returns and predicting for its future

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