A Study on Determinants of Stock Price of Selected Company in NSE

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Abstract— Stock price is more important in the corporate finance. The stock price is important from both the industry point of view as well as investor point of view. This study reviews the determinant factors of stock price and also describes the factors how the way it influence the stock price are explained. The determinant factors are Market price, Dividend per share, Earnings per share, Book value, Dividend payout ratio and price earnings ratio. This paper explained thus the factors are how the way it influence the stock price and its impacts. The present study is undertaken with and attempt to determine the factors that influence stock prices in the context of National Stock Exchange (NSE) 20 companies. A sample of 10 companies is selected for the periods 2012-2016 and using regression model the results indicate that firm's market price, earning per share, dividend per share, book value and dividend pay-out ratio are having a significant positive association with firm's stock price.

Key words: Market price, Dividend per share, Earnings per share, Book value, Stock price

I. INTRODUCTION

A share price is the price of a single share a number of saleable stocks of a company, derivative or other financial asset. In a layman terms, the stock price is highest amount someone is willing to pay for the stock, the lowest amount that it can be bought. The cost of purchasing a security on exchange. Stock prices can be affected a number of things including volatility in the market, the current economic conditions, and popularity of the company.

This literature review is initially done on stock price, earnings per share, dividend per share, book value, dividend payout ratio and price earnings ratio in terms of their features and relationship. The focus will be given on how stock price being related to the other six variable. The definition of the variables, their connections and topic related information.

According to Lawrence j. G., 2005, stock is ownership in a company, each share of stock representing a tiny piece of ownership. The shares you own, and the more of the company, the more dividends you earn when the company makes a determinants of stock price influence factors affect. They choose depends on what you want from a stock. Preferred stock typically pays regular dividend, and investor's income foremost from their stocks favor it common stock represents ownership of a company and more rights privileges than preferred stocks.

II. LITERATURE REVIEW

Dr. Sanjeet Sharma (2011), this study was explores the empirical relationship between the equity share price due to book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sales and also net worth for the period 1993-94 to 2008-09. These variables are explanatory variables. The result was to support the dividend policy and recommended for the companies to pay regular dividends because the dividend per share and earning per share has significant impact of market price of share.

Ejuvbekpokpo A. Stephen and Edesiri G. Okoro (2014), the term as stock price is basis assessment of the firms are whether achieve the breakeven point or not. This result was recommended to the government and the policy makers are should implement more strengthen rules, are backed up by the legislations are that will enhance the information to reported in the financial statements.

Faris Nasif AL- Shubiri (Corresponding author) (2010), this paper was said that the financial firms are make a substantial fraction of the domestic equity market. Some studies are subsequently used conceptual and the methodological approaches to model equity return of financial services firms. The stock price movement is very consequence of movement based the micro and the macroeconomic factors.

Dr. Mohammad Abdelkarim Almumani (2014), this study was explores that the positive relationship between some independent variables are earnings per share, book value, price earning due to one dependent variable market price. Inverse relationship between the final variable of stock/share due to the market price. Another aspect of dividend per share have insignificant impact on the market price.

Samuel Tabot ENOW, Pradeep BRIJLAL (2016), this results of fourteen companies' stock exchange reveals that earning per share, dividend per share and the price earnings ratio accounts for 57.8% of share movements. This study I found and implies that, the managers can create the value for their shareholders by increasing dividend per share, earnings per share and the finally price-earnings.

Md. Reaz Uddin S.M. Zahidur Rahman Md. Rajib Hossain (2013), this study was proved in earnings per share, net asset value, net profit after tax and price earnings ratio are strong relationship between the stock prices. These are the pertinent variables. The term of stock price is mainly focused exclusively on the financial institutions.

A. Research Objectives

− To identify the influence variables determining the stock price.
− To analyze the impact of variables on stock price

B. Research Methodology:

The present study deals with fundamental analysis of share valuation as it focuses on factors relating the company. This section explains in details the objectives, period, sample, and methodology used in the study.

C. Research Design

Research design is a plan to answer whom, where, and how the subject under investigation conceived so as to obtain

answers to research questions. The type of research design is involved in this study is descriptive research studies.

Descriptive research is carried out with objective and the research problem is analyzed by the way of collecting data from websites.

III. DATA COLLECTION TECHNIQUE

The study used only secondary data from 2012 to 2016. The sample comprised of companies listed on the National Stock Exchange based on the following criteria.

From the year of 2012-2016, financial statements are taken from this study. The company must be amongst the top 10 companies within period.

IV. DETERMINANTS OF STOCK PRICE

A. Market price:

The market price the share is mainly determined by the forces of demand and supply of a particular security in market. The price a share at particular moment represent the balance struck between the buyer and seller. Daily price fluctuations arise because of change in buying and selling pressure. These fluctuations it becomes difficult to decide as to which market price should be regressed as a measured of depend variables.

$$MP = PH - PL/2$$

Where,

PH- is the greatest market price, PL- is the lowest price during the year

B. Dividend per share (DPS):

Dividend per share is a part of net income distributed in cash to shareholder of the company. it is the portion of corporate profits paid out of stockholders depends upon the dividend policy pursued a company. The dividend rate of a company has a significant influence on market price of a share.

$$DPS = \frac{Dividend}{No.of\ equity\ shares\ outstanding}$$

C. Earnings per share (EPS0:

It refers to the ratio of profit after tax the company for any financial year after payment of preference dividend. The equity shareholder are claimants to net earnings the corporation after making payment of dividend to the preference shareholders. The significance of this ratio flows from the fact that higher the earnings per share the more is the scope for a higher rate of dividend and also of retained earnings to build up the strength of the company.

$$EPS = \frac{Net\ Profit\ After\ Tax - Preference\ Dividend}{No.of\ outstanding\ shares}$$

D. Book value (BV0:

'Book value per share common share' is the measure used by owners of common share in a firms to determine the level of safety associated with each individual share after all debts are paid accordingly.

$$BV = \frac{Equity\ share\ capital + shareholder\ reserves}{Total\ no.of\ equity\ shares\ outstanding}$$

Book value of an asset is the value at which the asset is carried on a balance sheet calculated by taking the cost of an asset minus the accumulated depreciation. Book value also net asset value of a company, calculated as total asset minus intangible assets (goodwill) and liabilities. The initial outlay of an investment, book value may be net or gross of expenses such as trading costs, sales taxes, service charge.

E. Dividend payout ratio (DP):

The dividend payout ratio is the amount of dividend paid to stockholders relative to the amount of total net income a company. Dividend payout shows the percentage share of the net profit after tax and preference dividend paid out dividend stockholders. The amount that is kept by the company is called retained earnings.

$$DP = \frac{DPS}{EPS}$$

V. INFLUENCES THE DETERMINANTS OF STOCK PRICE

Influences the determinants of stock price many factors can cause the price of a stock to rise or fall- from specific news about a company's earnings to a change in how investors feel about the stock market.

− News releases on earnings and profits, and future estimated earnings.
− Announcement of dividend
− Anticipated takeover or merger
− Accounting errors or scandals

A dividend per share affecting in a firm's dividend policy is influenced by the large numbers of factors. Some factor affecting the amount of dividend and type of factor affect of dividend. The following are the some major factors which influences the dividend policy of the firms.

− Legal requirement
− Firm's liquidity position
− Repayment need
− Expected rate of return
− Shareholder individual tax situation

The earnings per Share Company annual report can create a false impression, as increasing earnings per share does not always equate to increasing profitability. Way to grow EPS companies can increase.

− Doing a better job
− Buying other companies
− Undertaken a share buyback

A book value is affected by its term, face value, coupon is the interest rate that the business must pay on the bounds. In practical terms, the discount rate generally equals the coupon rate interest rate associated.

The factors affecting dividend payout a third argument in favor of low dividends is the high cost a firms of issuing new stock. In other word, to avoid the need to raise money through the issuance of new stock, which is expensive a firms should retained most or all of their earnings and pay little on dividend to investors.

The price to earnings ratio of market price per share to annual earnings per share for a company's stock. It measure the payback period for your investment in year. The PE ratio is not particularly relevant as a standalone number of exit points in stocks.

VI. DATA ANALYSIS AND INTERPRETATION

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.950a	.903	.895	16.458

Table 1: Model Summary Regression analysis
a. Predictors: (Constant), P, DPR, DPS, BV

Multiple R denotes the correlation coefficient between the dependant variable and independent variable. Multiple R value of 0.950 (95%), shows strong positive correlation between the dependant variable and independent variables.

R square is called coefficient of determination, gives the contribution made by regression in explaining the variation in the dependant variable. R square value is 0.903, which means 90.3% of variation in the dependant variable is explained by the independent variables. About 9.7% are accounted by error or residual terms. So the model fitted is fairly accurate.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	113935.919	4	28483.980	105.157	.000[b]
	Residual	12189.148	45	270.870		
	Total	126125.067	49			

Table 2: ANOVA

a. Dependent Variable: EPS
b. Predictors: (Constant), P, DPR, DPS, BV

The calculated F value which is 105.157 and the tabulated value is 3.83, here since the calculated value is greater than the tabulated value, it can be concluded that there is a linear relationship between the dependant variable (EPS) and independent variables (MP) and the independent variables are distinct.

Since the test for significance is done at 95% confidence level, the p-value has to be less or equal to 0.05 for the test to be significant. Here the p-value 0.000 which is less than 0.05, so the direct EPS relationship with the MP.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.458	4.694		.311	.757
	BV	.081	.014	.579	5.900	.000
	DPR	-.229	.158	-.084	-1.445	.155
	MP	.348	.494	.047	.704	.485
	DPS	1.809	.381	.413	4.754	.000

Table 3: Coefficients[a]

Observation of significance level indicates that BV is 0.00 which is less than 0.05, so BV has significant impact on EPS, and B value is 0.081, so BV has significant positive impact on EPS.

Then significance level indicates that DPS is 0.00 which is less than 0.05, so DPS has significant impact on EPS, and B value is 1.809, so DPS has significant positive impact on EPS.

		EPS	DPS	BV	DPR	MP
EPS	Pearson Correlation	1	.836[**]	.921[**]	.062	.656[**]
	Sig. (2-tailed)		.000	.000	.669	.000
	N	50	50	50	50	50
DPS	Pearson Correlation	.836[**]	1	.745[**]	.375[**]	.493[**]
	Sig. (2-tailed)	.000		.000	.007	.000
	N	50	50	50	50	50
BV	Pearson Correlation	.921[**]	.745[**]	1	-.020	.708[**]
	Sig. (2-tailed)	.000	.000		.891	.000
	N	50	50	50	50	50
DPR	Pearson Correlation	.062	.375[**]	-.020	1	.048
	Sig. (2-tailed)	.669	.007	.891		.741
	N	50	50	50	50	50
MP	Pearson Correlation	.656[**]	.493[**]	.708[**]	.048	1
	Sig. (2-tailed)	.000	.000	.000	.741	
	N	50	50	50	50	50

Table 4: Correlations
Correlation is significant at the 0.01 level (2-tailed).

VII. INTERPRETATION

It can be observed from Table III that values of the explained variable i.e. market price as well as the explanatory variables is influencing over the period 2012-16. These values are analysing form Regression, ANOVA and correlation.

The result is more significant between the Dividend pay-out ratio and Earning per share

The R square value is .903. This value is more than .7, finally DPR has highly significant impact of EPS.
It is revealed from the table.1 shows that the calculated value is 105.157 and the significance value is .000. C>T then H1 is accepted.

Then the Dividend pay-out ratio has significant impact of Earning per share. There is a significance association between the DPR and EPS.

As it can be noted from the correlation table, the EPS has highly significant correlation with DPS, BV and MP, i.e. .836,.921,.656, but the EPS has only negative correlation with DPR.

The DPS has highly significant correlation with EPS, BV, MP and DPR, the BV has highly significant correlation with EPS, DPS and MP. DPS has only positive correlation between DPR. MP has positive correlation between the EPS, DPS and BV.

VIII. CONCLUSION

This paper examine the determinants factors of stock price. From various literature review, the determinants of stock price are very much conflicting area of corporate finance. The determinant factors are Market price, Dividend per share, Earnings per share, Book value, Dividend payout ratio and price earnings ratio. Thus the determinants factors are identified and how the way it influence the stock price are explained clearly in this study. This study analyzing between DPR, DPS, EPS, BV and MP factors are how to influencing the stock price. The findings of this study are particularly useful for investors and fund managers. The significant factors while analysing stock returns and predicting future prices.

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