Abstract and Key words

The research work ‘Risk-Return Relationship on Equity Shares in India’ is an empirical investigation of the association between various risk factors and the average rate of return earned during a period of 14 years from January 1996 to December 2009. A more detailed analysis has been conducted by testing the stationarity of market risk, beta, and the market efficiency of the Indian stock market in weak form as an extension to the main object.

The sample size for the present study is limited to 60 companies, belonging to different industry category forming part of BSE500 Index. The required data were collected from the CMIE-PROWESS data bank. The study used SPSS Ver.13.0 package for statistical analysis.

The parameters taken into account are the distributional risk variables, namely variance of the return, skewness of the return and kurtosis of the return distribution. Another variable considered is the security-market return correlation. Moreover the financial risk variables considered for the analysis are liquidity ratio, leverage ratio, dividend payout ratio, growth in assets, sales, earnings, size and earnings per share.

It is found from the analysis that, during the period of study, out of the distributional risk variables, ‘variance’ and ‘skewness’ of the return shows a significant positive relation with average rate of return and kurtosis discloses a negative relation. Security-market return also shows a positive relation with average rate of return. But the financial risk variables are not significantly related with average rate of return. The market risk, beta, is found stationary during the period of analysis and also confirmed that the Indian stock market is efficient in weak form.

**Key words:** Stock Market, Risk, Return, Distributional Risk Variables, Financial Risk Variables, Security-Market Return Correlation, CAPM, Beta, Beta Stationarity, Time Variable, Dummy Variable, Systematic Risk, Efficient Market Hypothesis.