ABSTRACT

The literature pertaining to economics in India dates back to the time of Chanakya, who wrote “Arthshastra” in 350 BC which is amongst the early literatures describing the various principles of economics. With the foreign invasions and foreign rulers, India lost its economic direction and the rules lay down by Chanakya. Even after Independence there weren’t significant reforms till the economy was liberalised in 1990s. With economic liberalisation there was an increase interest in the Indian markets from not only Indian investors but also foreign investors. This led to a surge in both primary and secondary markets. No doubt the study of fundamental variables to explain the stock price has been done in developed countries like US, UK but such a study is still in its nascent stage in emerging economies. Moreover with the transformation of economy, the non financial information has gained importance but researchers have neglected it till now. No study incorporating the financial as well as non financial variables with the perception of investors has been done in the Indian context, so this study aims to fill this research gap by incorporating both the financial and non financial variables. The study also includes investors’ perception towards the various financial and non financial variables and tries to study the influence of such variables on their decision making.

The study also aims to study that whether the growth of industry and the growth of investment in R&D and other non financial variables like social responsibility has an impact on Indian investors’ decisions or not. The dearth of studies in areas of R&D and Marketing expenditure in emerging markets particularly India has provided motivation to study the impact of such financial and non financial variables in Indian context.

As a result, from the investors view point, financial and non financial information and their importance need to be better defined.

The study categorized variables into financial and non-financial variables. The financial variables included EPS, Earnings yield, net income, book value, DPS, Cash flows, retained earnings, investments, shares traded, PAT, capitalization,
enterprise value, net sales, gross profit, ROI. The non-financial variables included are employee cost, R&D capital expenditure, R&D revenue expenditure, royalty, technical and license fees, market expenditure, intangible assets, age of the company, and social performance.

To study the above variables, the primary and secondary data was collected. The primary data was collected from 500 respondents in various cities of western region of India by administering a questionnaire. The secondary data was collected from BSE 100 provided in prowess from 2003 to 2013. Various statistical tools like Frequency tables, Simple weighted ranking method, Chi Square, t test, ANOVAs, Correlation, Regression analysis and Tobin’s q have been used to analyze the primary and secondary data.

The primary survey revealed that investors do take various kinds of information into consideration before making an investment. They emphasize the use of both, the financial as well as nonfinancial information. The R² has improved when non-financial and financial variables were taken together to study their impact on the level of investment.

While analyzing the secondary data for BSE 100, the financial and non-financial variables were studied independently and they were found to be significant and having an impact on the dependent variable, the share price. The R and R² improved considerably when the financial and non-financial variables were taken together indicating that they are complementary, harmonizing and increasing the impact of these variables on the share price. The difference between R² for the financial variables model and the R² for the combined model of financial and non-financial variables represents the incremental explanatory power of the non-financial variables over financial variables.

The traditional accounting performance measurement Net income provided significant explanatory power in terms of its influence on the share price.

Earnings yield is also found to be a significant financial variable. From the other regression models it is seen that employee cost, market expenses, royalty,
technical fees are the most significant variables followed by R&D revenue per share.

Most of the financial and non-financial variables are positively and significantly correlated with the share price.

All the findings of secondary data analysis are also supported by primary data analysis.