IMPACT OF QUARTERLY FINANCIAL RESULTS
ON MARKET PRICE OF SHARE: AN ANALYTICAL
STUDY OF SELECTED INDIAN COMPANIES

ABSTRACT

I. Introduction:

There are various corporate actions or events such as Mergers & Acquisitions, Stock Split, Bonus share, Right issue, Dividend, Earnings, etc that influence the share price.

Out of various events, earnings announcement is keenly awaited by investors, as it offers an opportunity to review the financial performance of the company and one’s portfolio. Quarterly results also act as barometers of financial soundness and solvency, management efficiency and overall growth of an organization. Investors’ expectations are mostly affected by the performance of the company.

As per listing agreement, every company has to report the quarterly results within one month from the end of the quarter. The objective of the interim reporting improves the ability of investors, creditors and others to understand an enterprise’s capacity to generate earnings and cash flows, its financial condition and liquidity. Company earnings announcement is also closely watched events, being it is the main source of new information about company performance and plays a vital role in attracting investments in shares.

Moreover, a company’s earnings result offers a trigger for its share price to move. In this study the effort is made to study the immediate impact on the share price of a stock & on the BSE 500 index when an earning updates are released.

II. Objectives of the Study:

1. To know the effect of quarterly results on share price.
2. To understand the price fluctuation in the shares of selected companies during the pre and post result period.
3. To find out the sector-wise price fluctuation in the shares of selected companies during the pre and post result period.
4. To compare the sector-wise impact of interim results on the share price.
5. To find the relation between results of the company and changes in share prices.

III. Scope of the Study:

The scope of the study is very wide. The study covers the earning announcements of 20 quarters, from first quarter of financial year 2009-10 to last quarter of financial year end 2013-14. In this study, the data of quarterly announcements is defined as a day 0 or event day. If the event day is non trading day then the immediate following trading day is considered as event day. Pre-announcement period includes 10 trading days prior to the earnings announcement date. Post announcement period includes 10 trading days after the earnings announcement date.

IV. Limitations of the Study:

1) The study is based on secondary data collected from websites. The limitation of secondary data, if any, will also influence study.
2) As, the study is conducted on with the samples of 100 companies, the generalization of results cannot not be made to whole Indian corporate world.
3) The Study analysis the impact of quarterly result on the share price only not on the number of shares traded, turn over, number of trades, etc.
4) Out of various elements of quarterly financial report such P/E Ratio, Earning per share, the Net Profit After Tax (EAT) is considered to study the impact on the share price

V. Methods of Research:

It is an empirical research as the sample size is of 100 companies listed on S&P BSE 500 index which are selected from 21 different sectors. Moreover the study is mainly based on the secondary data. The share prices of selected 100 companies and quarterly result declaring dates will be downloaded from, www.bseindia.com, www.capitaline.com and moneycontrol.com, company websites which constitutes the main sources of data for study. The study in itself is self explanatory. Empirical Research can be defined as "research based on experimentation or observation (evidence)". Such research is conducted to test a hypothesis.
VI. **Sampling design:**

As of December 2015 there are 19 stock exchanges are in existence in India stock Exchange. However there are two major national level stock exchanges in India they are Bombay Stock Exchange and National Stock Exchange.

In terms of the existence (oldest), Market Capitalization, No. of Companies listed, No. of Index; BSE is superior to NSE. Hence, BSE is selected for the study.

In this study, the entire population includes all the companies listed on Bombay Stock Exchange. There are 23 indices listed on Bombay stock Exchange. Out of 23 indices S&P BSE 500 is selected to carry the study. The rationale behind selecting this index for the study is S&P BSE 500 index represents nearly 93% of the total market capitalization on BSE and it covers all 21 major industries of the economy.

VII. **Sampling Technique:**

The Sampling technique applied for the study is Proportionate stratified sampling. A stratified sample is a probability sampling technique in which the researcher has divided the entire target population into different subgroups, or strata, and then randomly selects the final subjects proportionally from the different strata. As the S&P BSE 500 has systematical classified the companies among various 21 sectors helps to highlight specific subgroups within the population.

VIII. **Selection of sample size:**

As the study is to be carried out by the individual researcher, it is not feasible to select all the companies included in BSE 500 companies as the sample units for the study. So, the researcher has adopted Proportionate stratified random sampling to select 100 companies out of BSE 500 companies (i.e. 20%).

IX. **Methods of data collection:**

As the nature of study is as such; the Present study is based on secondary data only. Secondary data will be collected from company websites, BSE website, SEBI website,
money control.com, individual company websites etc. as these constitute the reliable source of data for the research.

X. **Tools & Techniques used for data analysis:**

1) **Average**: In this study, the average of Share price 10 days before declaring quarterly results and the average of share price 10 days after declaring the quarterly result is calculated and extensively used in further analysis.

2) **Standard Deviation**: In this study the SD is used to measure the variation in share price (10 days before declaring results) of selected company and the share price 10 days after declaring the quarterly results.

3) **Paired t-test**: A paired t-test is used to compare two population means where you have two samples in which observations in one sample can be paired with observations in the other sample. As the nature of the study is to study the changes in the price of share price of selected companies before and after declaring the quarterly results this method is selected for the purpose of analysis.

XI. **Research Process**:

**Step one**: Collect the quarterly result declaration date event day (0) for 20 quarters (5 years) of each sample.

**Step Two**: Collect 10 days before share price and 10 days after share price of selected sample for each quarterly result date.

**Step Three**: Calculate the Average share price of 10 days before and 10 days after quarterly result date.

**Step Four**: Calculate Standard Deviation to find the variation in share price before and after declaring the quarterly results.

**Step Five**: Calculation of t Value at 5% level of significance for find whether there is a significant impact of quarterly result on movement of share price.
Step six: To find out whether there is positive relation or negative relation on share price after declaring the quarterly results.

Positive Relation depicts increase in average share price when quarterly result shows profit and decrease in average share price when quarterly result shows loss.

Negative Relation depicts increase in average share price when quarterly result shows loss and decrease in average share price when quarterly result shows profit.

XII. Hypothesis of the Study:

Hypothesis-1:

Ho: There would be no significant difference between the average Share Prices of selected company 10 days before and after declaring quarterly result.

H1: There would be significant difference between the average Share Prices of selected 10 days before and after declaring quarterly result.

Hypothesis-2:

H0: Quarterly results and the share price of selected company are negatively related to each other i.e. increase in average share price when quarterly result shows loss and decrease in average share price when quarterly result shows profit.

H1: Quarterly results and the share price of selected company are positively related to each other i.e. increase in average share price when quarterly result shows profit and decrease in average share price when quarterly result shows loss.

Hypothesis-3:

H0: There would be no significant difference between the average Share Prices of selected Sector 10 days before and after declaring quarterly result.

H1: There would be significant difference between the average Share Prices of selected Sector 10 days before and after declaring quarterly result.
Hypothesis-4:

H0: Quarterly results and the share price of selected Sector are negatively related to each other i.e. increase in average share price when quarterly result shows loss and decrease in average share price when quarterly result shows profit.

H1: Quarterly results and the share price of selected Sector are positively related to each other i.e. increase in average share price when quarterly result shows profit and decrease in average share price when quarterly result shows loss.

XIII. Chapter Scheme

Chapter-1 Introduction & Research Design, this chapter covers introduction to the topic, objectives significance, scope & limitation. It also includes research methodology, sampling design, Selection of sample size & assumption, Methods of data collection, Tools & techniques used for data analysis, Research Process & Hypothesis and Decision Rule.

Chapter-2 Review of Literature, this chapter consists of literature review of 52 different authors based on the related topics of the study.

Chapter-3 Conceptual & Theoretical background, this chapter focuses on theory & concept related to capital market, role & function of stock exchange, control of stock exchanges in India, Bombay Stock Exchange, S&P BSE 500 Indices, Role & importance of Quarterly results, Legal Provisions for Quarterly Financial Reports, Components of the Quarterly Earnings Report, Pros and Cons of Quarterly Results, brief profile of major sectors included in Indian Economy.

Chapter -4 Data Analysis & Interpretation, this chapter consist data analysis & interpretation of 100 companies selected for the study and also 21 sectors included in BSE S&P 500 for the period 2009 to 2014.

Chapter-5 Findings & suggestions, this chapter concludes the overall impact of quarterly results on share prices of selected companies and the relation of quarterly result announcement on share price. It also gives opportunity to investors, brokers and company
official to understand the market price fluctuations during result declaration and perform necessary actions.

**XIV. Findings & Suggestions:**

It is observed that in more than majority of the companies (83 out of 100) selected for study there is no significant change in the average prices of share after declaring quarterly results. It is found that for majority of the companies (59 out of 100) selected for study has a negative relation between the quarterly results & share price.

It is observed that, in almost all the sectors (17 out of 21) selected for the study there no significant change in the average prices of share after declaring quarterly results. It is found that, majority of the sectors (12 out of 21) selected for the study has a negative relation between the quarterly results & share price.

Thus, it can be concluded that quarterly result declaration has very little significance on share price of selected sample.

It is suggested to the investors that quarterly results declaration has no immediate impact on the average share price movement. So investor should not depend too much on quarterly result declaration for initiating the transaction.

Based on the study it is suggested brokers and financial advisors should consult their clients regarding very low relation of quarterly results and immediate share price movements.

It is also suggested to company officials or finance manager to aware about the negative relation between quarterly results and share price which will help them know the trend in share price during result declaration period in future.

Kamal .P.Galani  
RESEACH CANDIDATE

Prof. Dr. A.N.Barbole  
RESEACH GUIDE