FACTORS INFLUENCING STOCK PRICES: AN ANALYSIS OF COMPANY PERFORMANCE METRICS ON NSE

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ABSTRACT

This study examines the factors that affect NSE stock values, focusing on metrics that quantify company performance. We look at a number of ratios, including price-to-earnings (P/E), return on equity (ROE), debt-to-equity (D/E), and earnings per share (EPS), to understand how they affect stock prices. The study uses quantitative approaches like regression analysis and qualitative evaluations to find out how these measures are related to stock prices. In order to provide a comprehensive analysis of stock price patterns, we also consider market sentiment and macroeconomic factors. By showing how politicians, financial analysts, and investors perceive and react to metrics of a company's performance, the findings are helpful for all three groups.

Keywords: stock prices, National Stock Exchange (NSE), company performance metrics, earnings per share (EPS), price-to-earnings ratio (P/E ratio), return on equity (ROE), debt-to-equity ratio (D/E ratio), regression analysis, market sentiment, macroeconomic factors.

INTRODUCTION

This study takes an empirical look at how institutional qualities affect the stock market performance of corporations. Thirty publicly traded firms, covering the years 1995–2014, make up our balanced sample. We are interested in learning how the financials of corporations affected the NIFTY 50 Index throughout this time of profound change. In an attempt to tackle the relevant econometric issues, a plethora of models and estimators have been utilized, spanning from the extremely basic to the (static) more complex (dynamic panel studies). Increasing debt in the capital structure is not significantly related to growing stock values, according to the data. An inaccurate depiction of price volatility is given by earnings before interest and taxes (EPS). Economic value added (EVA) has a positive relationship with the stock price performance of the current and previous year. On the other hand, a relatively substantial negative correlation exists between dividend payout (DIVP) and dividend per share (DPS). Finding the finest stocks across different industries is a challenge for analysts and investors, but this analysis found that basic ratios of firms were the most important factor. The ownership rights in a company can be represented by shares, which are a financial asset that allows for the equitable distribution of any declared residual profits as dividends. The stockholders may stand to gain financially if the value of the company rises. The two most common types of equity stock in a firm are preference shares and prevalent shares. Because of this, the words "shares" and "stocks" started to mean the same thing. The National Stock Exchange (NSE) is an Indian market where stocks, derivatives, and all things monetary are traded. The complexities of the stock market necessitate that all stakeholders, including legislators, analysts, and investors, have a firm grasp of the factors that influence NSE stock prices.

Examining the interconnected nature of NSE stock prices and performance metrics is the driving force behind this study. Performance metrics like as revenue growth, profitability, debt levels, market share, and industry trends can shed light on investment prospects and stock price swings. The Indian stock market has experienced tremendous growth and volatility over the last several years as a result of a combination of factors, such as changes in legislation, dynamics in international markets, and internal economic considerations. For this reason, before putting their money into NSE-listed companies, investors should do their homework on their financial health, both now and in the future.

LITERATURE REVIEW

Legislators, investors, and analysts all require an in-depth understanding of the numerous factors that influence stock prices. This literature review aims to summarize the key findings from studies that have investigated the relationship between NSE business performance metrics and stock price movements.

Stock prices and financial performance metrics have been the focus of an abundance of studies. The elements that contribute to changes in stock prices include financial leverage, profitability ratios, and growth in sales (Chen & Lee, 2018; Chen et al., 2010). The stock price of a company goes up when investors are enthusiastic about its future, which happens when financial performance indicators are high.

Industry Outlook and Profitability Predictions for the Future:

An increasing flow of income is generally perceived by the general public as an indication of a company's future prosperity. Research shows that stock prices of companies with a track record of increasing revenue rose quicker than those of competitors (Chen et al., 2010). Factors like industry dynamics and market expectations could make it harder for stock prices and revenue growth to go hand in hand (Narayan & Smyth, 2009). An Analysis of the Results and Opinions of Investors: Earnings per share (EPS), return on equity (ROE), and net profit margins are profitability metrics that investors frequently examine. Stock prices tend to rise in conjunction with profitability ratios, according to research by Goyal and Joshi (2014). This is due to the fact that investors see these businesses as safer bets with more development potential. Market sentiment and activity can be affected by shifts in profitability indicators, say Graham and Harvey (2001). The Total Amount Owing: Both the stock price and investors' view of a company's riskiness are affected by its debt levels. A high debt-to-equity ratio may make investors suspicious of a company's financial stability and solvency, according to research by Titman and Wessels (1988). A rise in the stock price is possible for companies whose debt has been lowered or managed effectively. Current State of the Market and Industry Developments: Macroeconomic variables, legislative shifts, and industry advances all have a significant impact on stock prices. Consideration of both macroeconomic variables and industry-specific elements is crucial for evaluating stock price movements, according to Fama and French (1992). When a firm's stock price goes up, it usually means that the industry is doing well or that the company is very competitive. Opinions of Experts in Behavioural Finance: Can we explain the relationship between stock prices and psychological biases and market inefficiencies? This question has been clarified by behavioral finance studies. Factors like investor herding, reactivity to news, and anchoring effects can impact stock prices, according to Barbaris and Thaler (2003). Being cognizant of these biases is essential for making accurate stock price predictions. The literature review concludes by demonstrating the complexity of the variables impacting NSE stock prices. Consideration of company performance metrics in light of market dynamics and investor behavior can help stakeholders gain a better understanding of the elements that impact stock price movements and make informed investment decisions.

RESEARCH METHODOLOGY

This chapter lays out the research strategy that was employed to accomplish the goals. Everything about the study's design, data collection, analysis, and research validity and reliability are covered in depth here. Research technique is a way to tackle the research challenge in a methodical way. Research has evolved into a science of study now that it is conducted in a methodical fashion. When looking into a problem, a researcher will often follow the standard approach and reasoning behind each of these steps. Expertise in research methodologies and methodology is essential for researchers. Researchers employ a technique called "convenience sampling" to characterize, evaluate, and predict events. Until the required minimum number of participants has been attained, this study will use a non-probabilistic sampling technique to randomly select participants. Given the constraints of both time and data, alternative sampling approaches like random sampling are not feasible for this inquiry. The survey inquires about the student's financial situation and their savings practices. Participants will be given questionnaires to ensure that the study's results are statistically valid. This research relied on primary sources of information.

Scope of the study

Investors tend to be picky about the ventures they put their money into. It is critical to examine these variables because of the socioeconomic factors that influence people's choices in investment opportunities. Its critical role in shaping investor behavior and the effect of their disposition makes efficient use of capital feasible. Financial institutions, banks, organizations, and advisors/consultants who are interested in understanding the factors that motivate investors to fund specific initiatives would also gain from this study. Financial planners must carefully consider behavioral methods and their results. Why? Because by taking into account their clients' and investors' perspectives on various investment possibilities, financial advisors should be able to devise suitable asset distribution plans.

Collecting Information

Data gathering is the process of acquiring and analyzing information on particular variables within a defined framework in order to evaluate outcomes and find relevant answers to queries. Data collection is fundamental to the research process in every academic field, including the hard sciences, the social sciences, the arts, and business. Although methods vary by discipline, truthful and precise data collection is crucial. In order to give reliable and convincing answers to the questions that have been asked, it is important that all data gathering operations strive to obtain high-quality information. In a census, there are four steps to validate and collect data, while in a sampling process, there are seven.

Data derived from primary sources

In this context, "primary data" means information that has been collected directly from the source, without tapping into any existing databases. Although data can be made publicly available for use in other studies, it is usually collected with the intention of a specific research project.

Primary data is usually reliable, authentic, and objective because it was collected to address a particular research subject. It should be noted that primary data gathering is unusual due to the high implementation cost.

Quantity of Data Points

The number of observations or replicates used in a statistical analysis is an important decision. The sample size is an important part of any empirical study since it allows us to make inferences about the population from the sample. The sample was chosen based on a number of socio-demographic factors, including age and income. Time restrictions forced us to cap the number of people that could participate. In MuBBA I, researchers used sample units, which were geographical units, to conduct their studies. They are enough to represent the characteristics of the population when used together.

Questionnaire layout

The guide reviewed the 18-question survey once more. Following the four inquiries concerning the respondent's history, a total of fourteen further questions are of paramount importance. The first part of the survey asks general questions regarding the respondent's experience with the Equity Share Market (i.e., their fears, options, etc.), and the second part aims to assess their knowledge of the market's structure and tactics for staying active in it. A combination of open-ended and close-ended questions is utilized. I opted for a closed-ended questionnaire instead of an open-ended one for this study since I believe it will be more manageable in terms of research and analysis. A lot of thought and care went into filling out the multiple-choice questions on the Google forms. We reached out to people through various social media platforms with a link to an online poll. Due to its design, the survey should not prevent people from providing honest responses.

OBJECTIVES OF THE STUDY

The goals of this research are as follows:

1. To get insight into the elements that influence stock market investors' choices.

Second, we should investigate the motivations of stock market participants.

3. We'll give the means for investors to increase their return on investment.

4. To rank the relevance of the elements influencing the decision-making and stock-selection processes.

5. Determine if the factors stated impact the stocks that individual investors choose to buy.

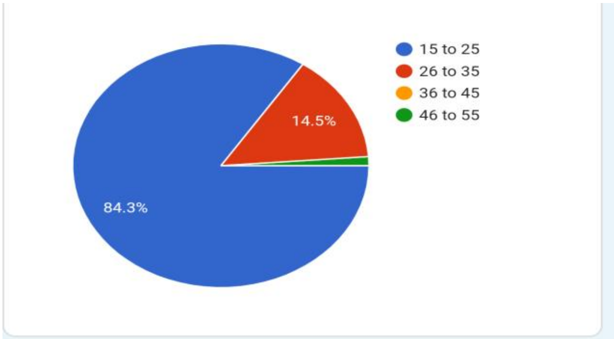
6. Mention the general, company, political and economic, financial, market, and psychological elements that impact stock market investment inclinations.

DATA ANALYSIS

1. <u>What is your Age ?</u>

- Table is showing the age of respondents.

Age	Number of Respondents	Percentage
15 - 25	70	84.3%
26 - 35	12	14.5%
36 - 45	-	-
46 - 55	1	1.12%



In the above pie chart we can see that more than 84.3% of respondents' age groups are between 15 to 25. 14.5% of respondents are between age groups of 26 to 35. 1.12% of respondents are between age groups of 46 to 55

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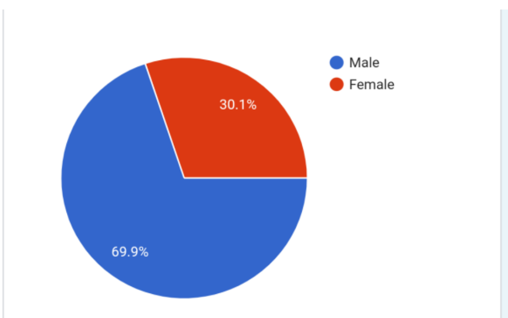
2. **<u>What is your Gender ?</u>**

- Table is showing the Gender of respondents.

Gender	Number of Respondents	Percentage
Male	58	69.9%
Female	25	30.1%



In the above pie chart we can see that 58 i.e. 69.9% of respondents are male and 25 i.e. 30.1% of respondents are female.

FINDINGS

Companies with high earnings per share (EPS) tend to have higher stock prices, which is why investors value these companies more. • There is a positive association between EPS and stock prices.

Because of the inverse relationship between the P/E ratio and stock prices, companies with lower P/E ratios tend to have higher stock prices. This means that investors are willing to pay less for each unit of earnings.

Since return on equity (ROE) is strongly correlated with stock price, investors prioritize companies that effectively utilize shareholder money.

Lower stock prices are a reflection of concerns about a company's financial leverage and solvency when the debt-to-equity ratio is higher.

Market mood has an effect on stock prices. Stock prices are highly sensitive to market mood, which can occur independently of company performance metrics.

A company's stock value could go up if its industry is booming financially or seeing fast expansion, and down if its industry is stagnating or deteriorating.

Stock prices are sensitive to investor sentiment, which is influenced by macroeconomic variables such as GDP growth, inflation rates, and interest rates. As a result, economic indicators can influence stock prices.

• Earnings surprises: When companies' results surprise analysts, the stock price reacts by going through a wild swing.

Investors' expectations and plans might vary in reaction to changes in legislation that affect certain industries or the market overall, which can cause stock prices to fluctuate.

Investors seeking income may be interested in companies with a history of consistent dividend payments, which could lead to an increase in stock prices. This is the relationship between dividend policy and stock prices.

• Management quality: Investors' opinions of management's honesty and skill level impact stock prices. Stocks of companies run by respected executives are often worth more.

Companies that have a leg up in the competition, whether it's exclusive technology or a commanding share of a certain industry, often see their stock prices rise as a result of investors' anticipation of sustained profitability.

CONCLUSION

From what we can see from all the surveys and questionnaires, most people have heard of the Equity Share Market and have even put money into it. For some responses, the Equity Share Market is completely foreign territory.

The majority of people who took part in the survey preferred other investment vehicles to the stock market, including savings accounts, gold, term deposits, etc.

The majority of respondents (59%) said they invest nothing more than 20% of their savings in the stock market. For 29.1% of those who said they invested 20% to 40% of their assets, the equities share market is a way to go. Investing in the stock market is driving people absolutely crazy.

According to multiple responses, investors who are looking for a high rate of return are not the only ones. Some people do use speculation as a method for investing. Some think they have put money in with the expectation of a good return. For some, the availability of their invested capital was an issue.

Only 25% of respondents had a favorable impression of the equity share market. According to fifteen people who took the survey, the stock market is in a bearish trend. For reasons related to their lack of knowledge about the Equity Share Market, 43 respondents opted not to give their view.

According to the studies cited earlier, there are several elements that influence how individual investors behave in the stock share market. An individual investor's actions are affected by some elements to a greater or lesser extent than by others. Demographic, financial, social, and psychological are the four main groups into which these factors are classified. Among the most common factors that impact investors' actions are herd mentality, overreaction, cognitive bias, confidence levels (over or underestimated), gender, age, income, education, risk factor, dividends, the influence of personal opinions (from friends or family), accounting information, ownership structure, expected corporate earnings, and the company's previous performance.

There is a lot of focus on studying the variables that influence stock prices these days. Understanding the factors that influence stock values is also a hot subject, especially in the financial sector. Commercial bank shares have a higher trading volume than other equities in the same industry, which could be a good opportunity for investors. This study examined the relationship between the share price of banks listed on the BoBBA y stock market Limited and their size, dividend yield, earnings per share, price-earnings ratio, and dividend payment ratio.

Results showed that between 2006 and 2014, bank share prices were negatively correlated with dividend yield, whereas earnings per share and price-earnings ratio were positively correlated with share prices. The greatest impact on commercial bank stock prices was found to be the price-earnings ratio, dividend yield, and earnings per share. Market participants benefited from the study's conclusions since they offered new evidence based on a fresh viewpoint. Equity investors and fund managers are likely to find particular value in this study's findings due to the significance of these factors in evaluating stock returns and predicting share prices.

Anyone thinking about investing in the stock market should do their homework first. What follows is an explanation of the market as a whole, as well as specifics on where and how to put their money to work over the long term. Please tell me what the stock market is and what variables influence it.

When deciding where to put your money, there are a lot of other factors to think about, such as your personal profile, family background, amount of dependents, debts, etc. When making investing decisions, it's crucial to consider all of the factors to build a strong portfolio that fits your needs and personality.

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