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IMPACT OF QUARTERLY FINANCIAL RESULTS ON SHARE PRICE OF SELECTED CAPITAL GOODS COMPANIES

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ABSTRACT

Quarterly financial result acts as barometers of financial soundness and solvency, management efficiency and overall growth of an organization. The purpose of present study is to find out the effect of quarterly financial results on the market price of shares of selected capital goods companies. 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 paired t technique is used. The effort is made to study the impact on selected 10 capital goods companies from S&P BSE 500 index of Bombay Stock Exchange.

KEYWORDS : Quarterly results, Share price, Capital goods, S&P BSE 500 index.

INTRODUCTION :

Out of various events such as Mergers& Acquisitions, Stock Split, Interim Earnings Announcement, Bonus share, Right issue, Dividend, Earnings, etc Interim Earnings announcement (Quarterly Financial results) is keenly awaited by investors, as it offers an opportunity to review 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 selected 10 capital goods companies from S&P BSE 500 index of Bombay Stock Exchange.

The Capital Goods sector, a USD32 billion industry in India, covers several subsectors in the Indian manufacturing space.The industry is dominated by the Heavy Electrical and Power Plant Equipment Segment which constitutes about 69 per cent of the aggregate production.The growth of the Capital Goods sector in India has been led by increasing demand, and sectoral production has expanded by a multiple of 2.5 in the ten years from 2004-05 to 2013-15.

OBJECTIVES OF THE STUDY:

The main objective of the study is to find out the effect of interim results on market price of securities. The other objectives are as follows:
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 the relation between results of the company and changes in share prices.
4.To find out impact of quarterly financial results on capital goods sector.

REVIEW OF RELEVANT LITERATURE:

✦ Phathak& Das (2008) examined the return behavior of a sample of firms experiencing a common type of event, for eg., earning announcement, stock splits, issue of debt or equity, merger and acquisition and so on. The objective was to assess was to assess the significance of the economic event on the market value of the firm. The paper investigated the impact of quarterly earnings announcements on the stock price movement of the firm constituting the BSE –Sensex. Daily return data was used to study the mean stock price effect. The effect of clustering of events was accommodated to analyze the effects of announcements. The study also examined the drifting up of share price with reference to ' good announcements' and bad announcements'.

✦ Iqbal&Mallikarjunappa (2009) examined the announcement effects of stock market quarterly earnings announcement. Event study methodology was used to analyze the data, and the sample consisted of 152 companies with minimum 20% foreign holdings and it was divided into good news, bad news and overall portfolios. The researcher concluded that stock market reactions to the earnings announcements are very slow.

✦ C. Balu& R. Kasilingam (2013) studied the impact of interim results on share prices. The data was collected from 20 companies which are listed on BSE, out of which ten companies are included in sensex list. The companies were selected to represent various industries such as IT, Steel, Banking, Automobile, Cements, Telecommunication, etc. the study shows that there was an increase in price after the results, and prices was not reflected in the growth in profits announced in the quarterly results.

✦ Kaur&Goyal (2012) examined whether earnings reports possess informational value that leads to changes in the equilibrium market price of the stocks traded on the Bombay Stock Exchange. The main objective of the study is to investigate the impact of quarterly earnings announcements on the stocks constituting the sensex. The study covers 119 quarterly earnings information releases of various firms of the sensex of the total number of disclosure. The overall sample was divided into 2 sub-samples of good announcements and bad announcements. No evidence of significant abnormal returns could be found in both these Sub-samples.

✦ Selvam, Babu, Indhumathi and Kogila (2010) "To analyze the share price reaction towards dividend announcement in the Indian capital market" The data consisted of 35 companies from different sectors. The capital asset pricing model (CAPM) and market model was analyzing the

impact. The authors conclude that there is a positive impact of dividend announcement on the share prices.

✦ Lazar and Pramod (2010) study "The influence of corporate actions (such as bonus issues, dividend, rights issue, splits, mergers, and Acquisitions etc. on share prices." Wilcox on Matched pairs test was adopted to analyze 80 companies listed on BSE and twelve types of corporate actions were identified. The study concluded that corporate actions play an important role in determining the share price of the companies.

✦ Otogawa (2003) study "The information asymmetry and market liquidity around the quarterly earnings announcements by focusing on quoted depths. Using the transaction data of 121 firm that implemented quarterly earnings reporting during period 2001, the author found that there were significant decreases and increases in daily based depths during the periods just after the release of the quarterly earnings, which were consistent with prediction based on prior theoretical studies.

✦ Szyszka (2001) studied market reaction to announcements of quarterly earnings. He observed that information content of quarterly reports is accordingly reflected in stock prices, as theoretically implied by the efficient market hypothesis. He focused on a small emerging market in Poland, and searched for the post announcement drift of abnormal returns, similar to the one observed in well developed and mature world markets. The clearest finding of the paper was the significant post- announcement drift of negative abnormal returns in a group of companied that unexpectedly reported highly disappointing quarterly earnings.

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.

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 10 Capital Goods 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 trade, 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

RESEARCH METHODOLOGY:

It is an empirical research as the sample size is of 10 Capital Goods companies out of 48 capital goods 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 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.

SAMPLING TECHNIQUE:

The S&P BSE 500 includes 21 different sectors covering wide range. However, the rationale for selecting Capital goods sector is; The Capital Goods sector, a USD32 billion industry in India, covers several subsectors in the Indian manufacturing space.

The industry is dominated by the Heavy Electrical and Power Plant Equipment Segment which constitutes about 69 per cent of the aggregate production. Moreover, Capital goods sector includes second largest number of companies' i.e.48 in S&P BSE 500 (i.e. almost 10% of S&P BSE 500 index). From the 48 capital goods companies included in S&P BSE 500; 10 companies are selected based on simple random sampling method for the purpose of study.

Methods of data analysis:

Parametric test is used to test the hypothesis. Parametric tests usually assume certain properties of the parent population from which we draw samples. Assumptions like observations come from a normal population, data follows normal distribution, sample size is large, assumption about the population parameters like mean, Variance, and etc must hold good before parametric tests can be used. Parametric tests are more powerful. The data in this test is derived from interval and ratio measurement. The important parametric tests are: (1) z- test (2) t- test (3) X^2- test (4) F- test.
Tools of Analysis:

1) Average: Average is most commonly used tool for analysis, alsoknown as arithmetic mean, briefly referred as mean. The averagecan be found by adding the values of all the variables and dividingit by total number of variables.

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: The concept of standard deviation was introduced by KarlPearson in 1823. It is most widely used measure of dispersion. It isdenoted by the Greek letter "σ" called as Sigma.Standard Deviation (SD) is the measure of spread of the numbers in a set of data from its mean value. This can also be said as a measure of variability or volatility in the given set of data.

A standard deviation close to 0 indicates that the data points tend to be very close to the mean (also called the expected value) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values.

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. Examples of where this might occur are:

Before-and-after observations on the same subjects (e.g. students' diagnostic test results before and after a particular module or course). Such a test is a way to test for comparing two relatedsamples, involving small values of n that does not require thevariances of the two populations to be equal, but theassumptionthat the two populations are normal must continue to apply. Such atest is

generally considered appropriate in a before and aftertreatment study.

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.

HYPOTHESIS OF THE STUDY:

Hypothesis:1

There would be significant difference between the Share's Prices of selected companies 10 days before and after declaring quarterly result.

Hypothesis: 2

The growth in profit reported in the results will not positively reflect in the share price of the selected companies.

Hypothesis 3:

There would be significant difference between the Share's Prices of capital goods sector 10 days before and after declaring quarterly result.

RESEARCH PROCESS:

In this study, the data of quarterly result announcements day 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.

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 ofsignificance 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 Relationdepicts 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.

DATA ANALYSIS

Sample 1: LARSEN & TOUBRO LIMITED

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t*Value
1485.995	1462.349	97.52	77.13	1.14

Sample 2: BHARAT HEAVY ELECTRICALS LTD.,

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
1143.516	1116.6	45.1965	63.57794	3.18

Sample 3: BHARAT ELECTRONICS LTD.

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
1500.167	1491.809	49.77045	54.921	4.93

Sample 4: CROMPTON GREAVES LTD.,

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
203.126	198.344	15.957	16.62017	4.29

Sample 5: ABB INDIA LIMITED

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
738.336	720.1055	44.3865	34.43028	5.76

Sample 6: HAVELLS INDIA LIMITED

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
554.402	552.3125	41.7525	40.9784	4.56

Sample 7: THERMAX LTD.

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
610.4928	604.0285	27.34875	27.51018	4.44

Sample 8: SUZLON ENERGY LTD.

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
39.786	37.022	3.826	3.953768	4.32

Sample 9: PUNJ LLOYD LTD

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
90.8895	83.058	11.6625	17.31583	3.01

Sample 10: HMT LIMITED

10 Days before Avg.	10 Days After Avg.	Average Deviation	Standard Deviation	Calculated *t* Value
50.1885	50.036	3.1585	3.396037	5.76

CAPITAL GOODS SECTOR

Sr. No.	Name of Company	Calculated *t* Value	Positive Relations	Negative Relations
1	LARSEN & TOUBRO LIMITED	1.14	9	11
2	BHARAT HEAVY ELECTRICALS LTD.,	3.18	3	17
3	BHARAT ELECTRONICS LTD.,	4.93	5	15
4	CROMPTON GREAVES LTD.,	4.29	10	10
5	ABB INDIA LIMITED	5.76	6	14
6	HAVELLS INDIA LIMITED	4.56	9	11
7	THERMAX LTD.	4.44	7	13
8	SUZLON ENERGY LTD.	4.32	16	4
9	PUNJ LLOYD LTD	3.01	10	10
10	HMT LIMITED	5.76	11	9
	TOTAL		86	114

SR. No.	Name of Company	Before Avg	After Avg	Deviation
1	LARSEN & TOUBRO LIMITED	1485.99	1462.34	23.65
2	BHARAT HEAVY ELECTRICALS LTD.,	1143.51	1116.6	26.91
3	BHARAT ELECTRONICS LTD.,	1500.16	1491.8	8.36
4	CROMPTON GREAVES LTD.,	203.12	198.34	4.78
5	ABB INDIA LIMITED	738.33	720.1	18.23
6	HAVELLS INDIA LIMITED	554.4	552.31	2.09
7	THERMAX LTD.	610.49	604.02	6.47
8	SUZLON ENERGY LTD.	39.78	37.02	2.76
9	PUNJ LLOYD LTD	90.88	83.05	7.83
10	HMT LIMITED	50.18	50.03	0.15

Average Deviation		Standard Deviation	t Value
10.123		9.422009	3.39

CONCLUSION

The value of 't' in the table at 5% level ofsignificancewith degree of freedom n-1 =19 is 2.093. Since the calculated value for all the capital goods companies except in case of Larsen & Toubro Limited is more than tabular value of t at 5% level ofsignificance. we can conclude that the there is significant change in theaverage prices of share after declaring quarterly results in case of selected company.

Since the value of 't' in the table at 5% level of significance (2.262) and with degree of freedom n-1 =9, is less than the calculated value (3.39) in case of average share prices of the Capital Goods sector declaring quarterly results.

From the above calculations it is clear that a quarterly result does affect the average share prices, i.e. there is significant change in the average prices of share after declaring quarterly results in case of capital goods sector.

The total number of Positive relations in case of capital goods industry for 20 quarters is 86 and Negative relations are 114. Since the number of negative relations are more; so we can conclude that there is a negative relation for the capital goods sector i.e. increase in average share price when quarterly result shows loss and decrease in average share price when quarterly result shows profit.

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