Effect of Financial Factor on Major Automobile Companies in Nse

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Abstract

The aim of this study is to find the effect of financial factor on stock market at NSE-50 Index 2016-2020. The major variables that are used to measure the financial performance factor are Current Ratio (CR), Liquid Ratio (LR), and Debt to Equity Ratio (DER), Return on Equity (ROE), Return on Assets (ROA) and Return in Capital Employed (ROCE) to Stock Market index as dependent variable. Population of this study is NSE Index. Sampling method used was Random sampling. This research used descriptive statistics and hypothesis testing (correlation and Paired Test) at 5% significance level. The result of this study shows that ROE, ROCE, ROA and DER have a negative and have not significant effect to stock return. CR & QR variable has a positive and significant effect to stock return.

Keywords
financial factors, market index, ratios, correlation, paired t test

Introduction

Economic growth depends on effective savings channeled to productive investment since savings rate is considered as one of the long-term growth drivers. The securities market, being a financial institution and merchant bankers that intermediates between savers and investors, provides fair prices to various types of financial instruments and plays a significant role in channelizing savings. The ability of the corporate sector to issue of funds from the capital markets depends on efficient functioning of the stock exchanges. The extent to which security prices would truly reflect real worth of firms and their growth potential reflects the market efficiency and position.

The dismal economic and financial data is one of the key drivers that hinder personnel investment journey. However, despite of slowing economy, the market results at an all-time high. Sensex touched the 41,000 mark for the first time ever and s Nifty index exceed the 12,100 mark. This strangeness between the security market and the economic & financial numbers is what boost confusion in the mind of the investor.

Background of the Study

Financial factors indicate flourishing of any economy and they decide the fortune of investments. The Financial factors influence price determination process in any economy. The delusion of financial factors affects stock and commodity market significantly causing motility in the prices. The stock market promotes economic growth by providing avenue to pool large and long-term capital through issuing of shares and stocks and other equities for industries in dire need of finance to expand their clientele. Thus, the overall growth of the economy is a function of how well the stock market performs and empirical evidences have proved the development of the capital market is crucial for economic growth. No doubt, a relationship exists between stock market development and growth of the economy and stock prices are generally believed to be influenced by some fundamental financial factors such as lending rate, inflation, money supply and exchange rate. Empirical evidences have shown that changes in stock prices are linked with financial behavior in advanced nations.
Financial Factors

A factor that is pertinent to a broad economy at the regional or national level and affects a large population rather than a few select individuals, financial factors such as inflation, savings and investment are key indicators of economic performance and financial performance indicators of listed companies are closely monitored by governments, businesses and consumers. The interplay or relationship between various financial factors is the subject of a great deal of work in the field of Business. Financial factors played a significant role in the growth of the economy as well as economic decision-making.

The Concept of Stock Exchange

Stock exchange is a form of exchange which provides services for stock brokers and traders to trade stocks, bonds, and other securities. Stock exchanges also provide facilities for the issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled investment products and bonds. To be able to trade a security on a certain stock exchange, it must be listed there. Usually, there is a central location at least for record keeping, but trade is increasingly less linked to such a physical place, as modern markets are electronic networks, which gives those advantages of increased speed and reduced cost of transactions. Trade on an exchange is by members only. The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary marketplace. A stock exchange is often the most important component of a stock market. Supply and demand in stock markets are driven by various factors that, as in all free markets, affect the price of stocks.

Review of Literature

Rimsha Majeed & Dr. Mohammad Fayaz (2020) the researcher is an endeavour to appraise the financial performance of Bharat Heavy Electricals Limited (BHEL) through the technique of ratio analysis. Dr. M. Muthu Gopalakrishnan & Devaraj T V (2017) they discharge their obligations to the various segments of the society only through earning profits. So, the financial performance of the business organizations matters a lot for all its stakeholders. Mr. R. Ramachandran, Mr. P. Kandhakumar & Dr. P. Kannadas (2019) in this present era of liberalization, privatization and globalization the market has become globally competitive; hence the survival of an enterprise depends upon the efficiency and accuracy. Myšková, R., & Hájek, P. (2017) The article deals with the analysis of the annual reports of u.s. firms from both points of view, a financial one based on a set of financial ratios, and a linguistic one based on the analysis of other information presented by firms in their annual reports. Dušan Baran, Andrej Pastýr & Daniela Baranová (2016). The success of every business enterprise is directly related to the competencies of business management. The business enterprise can, as a result, create variations of how to approach the new complex and changing situations of success in the market. Manoj Kumara N V & Abhilasha N (2015) Automobile sector plays an important role in economic development of developing countries. Financial performance analysis is aimed and process of determining
financial and operational constraints of a company from measures of accounting and financial statements. Dr. Roopa T N & Prof. Chaya Devi H B (2017) LPG welcomed many foreign countries to invest capital and setup business in India. It and it is one such sector which gained its growth momentum during this period, there by striking a place for India in global market. J Pavithra, K.P.Thooyamani & Kermiki Dkhar (2017) the process of recognizing the financial strengths and weaknesses of the firm by properly-establishing relationship between the items of the balance sheet and the profit and loss account. S. Saigeetha and Dr.S.T. Surulivel (2017) Accounting ratios helpful in a great manner to analyse the financial position of a company. Financial analysis helps to assess the profitability and financial position of a concern. Dr. C.

Balaji (2015)The success and survival of any organization depends upon how efficiently it is able to raise funds as and when needed and their proper utilization. R. Idhayajothi, Dr. O T V Latasri Et., Al, (2014) Finance statements are prepared primary for decision-making. they play a dominant role in setting the frame work and managerial conclusion and can be drawn from these statements is of immense use in decision-making through analysis and interpretation of financial statements. Dr. M. Ravichandran & M. Venkata Subramanian (2016) Based on the analysis, findings have been arrived that the company has got enough funds to meet its debts & liabilities, the income statement of the company shows sales of the company increased every year at good rate and profit also increased every year. Dr. P. Megaladevi (2015) The study is of crucial importance to measure the firm’s liquidity, solvency, profitability, stability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. Gowalsya R S & Mohammed Hasan M (2017) the objective of this study is to compare the current financial performance with last five years and to study the existing financial position of company. Ms. M Ganga, Mr. P Kalaiselvan & Ms. R. Suriya (2015). The objectives of the study are mainly focused on analyzing the performance of finance which is revealed through profitability position of the concern for the study period.

**Objectives of the Study**

To investigate the effect of financial factor on Automobile stocks in NSE-50 Index.

**Research Methodology**

**Research Method:** Descriptive Method

**Sampling Method:** Simple Random Sampling

**Period of the Study:**

The period of study is from 2016 to 2020. The study considered 10 companies are taken from Automobile sectors which are listed in NIFTY 50.
Tools for the Study

The following tools were used for the Effect of Financial Factor on Stock Market in India

1. **Profitability Ratios**
   1) Return on capital employed
   2) Return on net worth
   3) Return on Assets

2. **Liquidity & Solvency Ratios**
   1) Current ratio
   2) Quick ratio
   3) Debt equity ratio

**Statistical Tools**

1. T-Test
2. Correlation

**Source of Data**

The selected company’s historical prices are collected with the help of official website such as Money control.com, Investing.com, yahoo finance.com, and other sources are collected through reference books and Journals.

**Hypotheses for the study**

- There is no correlation between the changes in financial factor and market index
- There is no significant change in financial and stock market index

**Data Analysis & Interpretation**

The study mainly focuses on relationship between the changes in financial factor and market index by considering a study period of Five years from 2016 to 2020 using financial tools – Current Ratio (CR), Liquid Ratio (LR), Debt to Equity Ratio (DER), Return on Equity (ROE), Return on Assets (ROA) and Return in Capital Employed (ROCE) and statistical tools – T-test
and Correlation. The study uses secondary source of data and collecting information of 10 selected listed companies from Nifty 50.

<table>
<thead>
<tr>
<th>Pairs</th>
<th>Ratios</th>
<th>N</th>
<th>Correlation</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>ROE &amp; SP</td>
<td>50</td>
<td>-0.037</td>
<td>0.800</td>
</tr>
<tr>
<td>Pair 2</td>
<td>ROCE &amp; SP</td>
<td>50</td>
<td>-0.171</td>
<td>0.235</td>
</tr>
<tr>
<td>Pair 3</td>
<td>ROA &amp; SP</td>
<td>50</td>
<td>-0.100</td>
<td>0.490</td>
</tr>
<tr>
<td>Pair 4</td>
<td>DER &amp; SP</td>
<td>50</td>
<td>-0.095</td>
<td>0.511</td>
</tr>
<tr>
<td>Pair 5</td>
<td>CR &amp; SP</td>
<td>50</td>
<td>0.182</td>
<td>0.207</td>
</tr>
<tr>
<td>Pair 6</td>
<td>QR &amp; SP</td>
<td>50</td>
<td>0.081</td>
<td>0.577</td>
</tr>
</tbody>
</table>

Source: SPSS Calculation

In above table there are 4 pair are negative relation that is (ROE & SP, ROCE & SP, ROA & SP, DER & SP) and 2 pair are positive relation (CR & SP & QR & SP) there is a significant change in financial and stock market index. In paired T-test all 6 pair had a significant relation.
**Results & Discussion**

- A weak positive correlation found between the dependent variable Current Ratio and the independent variable Share Price (+ 0.182).

- Very weak positive correlation resulted between dependent variable Quick Ratio and the independent variable Share Price (+ 0.081).

- A significant negative correlation between Share Price, ROE, ROCE, ROA and DER are -0.037, -0.171, -0.100 and -0.095 respectively.

**Conclusion**

This research paper is an attempt to determine the financial performance of selected automobile companies in India by using financial performance parameters. It can be concluded that the anticipated inputs to this study to the firm is to assist strategic thinkers pay attention to the appropriate actions that apply latent and strong affect on their automobile performance. This research facilitates a comprehensive model for examining the financial performance of automobile performance.

**References**


