EFFECT OF SALES AND NET PROFITS ON INDIAN STOCK RETURNS

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ABSTRACT

There are various factors which determines the decision to invest in stock market. One of the important factor is stock return. For better decision making the investor looks into the financial information of the company. This paper investigates whether sales and profit have an effect on stock return. the sample size of 6 telecom companies are considered which follows the predetermined criteria mention in the paper and are actively traded from the period 2013-18.This paper suggests that there is no significant relationship between the independent variables(sales and net profits) and the dependent variables (stock returns).

KEYWORDS: Stock Returns, Sales, Net Profit, Stock price

I.   INTRODUCTION

India is currently the world's second largest telecommunication market with a subscriber base of 1206.22 million as on July 2018.Acording to (Trai, 2012) from the year 2003, India's telecom sector has recorded a strong growth rate. Financial information of companies is obtained by investors for better decision making. This paper investigates the relationship between sales and net profits on Indian telecom stock returns. There are many researches which focuses on determinants that has an effect on stock returns like financial ratios, firm size and cashflow (martani, mulyono, & khairurizka, 2009). As per (Lewellen, 2004) financial ratios are usually used predicting returns. He believes that the financial ratios are related to returns and suggest that the financial ratios and stock prices have weak power in predicting stock returns. This paper also wants to investigate that the impact of sales and net profit is very low on stock returns.

II.   REVIEW OF LITERATURE:

(Ataunal & gurbuz, 2016)this paper is concerned to detect the effect of change in sales volume on total value created for shareholders. His findings suggest that when sales growth moves beyond sustainable growth rate there shows a decreasing trend in creating value for shareholders.

(Arkan, 2016)studied the importance of financial ratios in predicting stock price. The results of his study indicate that there is a high correlation with profitability variables such as current ratio, return on assets, return on equity and net profit.

(Wairimu, 2016) emphasised that larger firms earn lower return in case of equity than small firms. The findings of the research show that the size of the firm as an effect on equity returns in case of developing countries but not in case of developed countries.The researcher concluded that there is a strong relationship between market return and small size firms.

(om & Goel, 2017) this study suggests that the various factors affecting stock price have positive relationship with MPPS. this paper also helps the future investors to focus on the various factors affecting stock price before making decision to invest in it.

(Ernayani & Robiyanto, 2016) the research indicates the factors that affect the stock return. He mainly focuses on cash flows, gross profitsand company size as the factors. He concludes that about 70.7% of stock return variation is due to cash flows, gross profits and company size and 29.3% are affected by other variables which is not included in this study.

According to (Saeed, metawa, & Eldomiaty, 2010) in his paper the impact of firm's growth on stock returns of non- financial firms listed on Egyptian stock returns. He considers firms growth as Total asset growth, Fixed asset growth, sales Revenue Growth and Sales weighted fixed asset growth. He concludes that there is an impact of firm's growth on stock returns.

(Chandra, Ervin, & fadrul, 2015) conducted the research, the result of which indicates that partially net income has positive and significant influence on return. They recommended that companies are advised to increase their performance in order to improve investors' confidence and interest in investing.

III.   OBJECTIVES:

This study is planned to accomplish the following objectives:

a. To study the effect of sales on Indian telecom stock returns.
b. To study the effect of net profits on Indian telecom stock returns.

IV.   RESEARCH DESIGN:

STATEMENT OF PROBLEM:

The previous researchers(razdar & ansari) conducted a research about the effect of gross profit margin, financial expense ratio, return on equity and return on assets in Tehran stock exchange.The study aims to analyse the significant impact of sales and net profits on the stock prices.

The main objective any business would be wealth maximization of the shareholders. Thus, it is necessary to know whether sales and profit margin as an impact on shareholders wealth.

SOURCES OF DATA:

The data used in this research is secondary quantitative data. The data collected to analyse the effect of sales and net profits on Indian telecom stock returns are mainly from secondary sources with a sample size of 6 companies from National Stock Exchange(NSE).

The pre-determined criteria adopted in choosing the sample size are as follows:

1. The firm's stock has been listed in stock exchange from the period 2013-18.
2. The firms with highest market capitalization.
3. The financial statements of the firm are available from the period 2013-18.

HYPOTHESIS:

H0: There is no significant effect of sales on Indian telecom stock returns.
H1: There is significant effect of sales on Indian telecom stock returns.
H0: There is no significant effect profits on Indian telecom stock returns.
H1: There is significant effect of profits on Indian telecom stock returns.

DATA ANALYSIS TOOLS

In this study Excel and SPSS has been used for data processing and to arrive at the   conclusion the Regression analysis is being used to study the effect of sales and profit on the Indian telecom stock returns of listed companies at National stock exchange. The companies with best market capitalization is taken into consideration for the data analysis of our research. The collected data is secondary in nature which is readily available at National Stock exchange website.

The financial data of various Indian telecom companies collected is represented in the following table:

Telecom companies	Bharti Airtel		
	Sales	net profit	stock return
2017-18	83,687.90	1,122.60	9%
2016-17	95,468.30	3,196.50	3%
2015-16	96,532.10	5,826.40	-4%
2014-15	96,100.70	5,053.10	11%
2013-14	85,746.10	3,019.40	6%

Table: 1.1

Telecom companies	Vodafone IdeaLtd		
	Sales	net profit	stock return
2017-18	28,247.10	-4,490.60	-1%
2016-17	35,552.66	-821.52	-4%
2015-16	35,916.36	2,306.45	-20%
2014-15	31,526.87	3,192.91	15%
2013-14	26,431.97	1,967.82	10%

Table:1.2

Telecom companies	Tata Communication		
	Sales	net profit	stock return
2017-18	5,120.90	266.63	-5%
2016-17	5,068.15	689.83	28%
2015-16	4,790.32	392.68	-2%
2014-15	4,316.03	674.62	17%
2013-14	4,330.05	542.43	16%

Table:1.3

Telecom companies	Reliance Communications		
	Sales	net profit	stock return
2017-18	4,593.00	-23,912.00	-8%
2016-17	4,593.00	-23,912.00	-8%
2015-16	6,554.00	-1,286.00	-2%
2014-15	21,743.00	658	-29%
2013-14	21,423.00	620	39%

Table:1.4

Telecom companies	MTNL		
	Sales	net profit	stock return
2017-18	2,471.86	-2,971.48	-6%
2016-17	2,948.81	-2,936.05	16%
2015-16	3,210.34	-1,945.86	3%
2014-15	3,471.97	-2,901.19	15%
2013-14	3,463.08	7,820.72	-5%

Table:1.5

Telecom companies	TTML		
	Sales	net profit	stock return
2017-18	1,868.51	-9,841.99	-3%
2016-17	2,657.42	-2,356.47	7%
2015-16	2,915.12	-358.34	-5%
2014-15	2,836.69	-615.25	9%
2013-14	2,649.43	-560.08	5%

Table:1.6

EXPECTED OUTCOME

    a. This paper is planned to evaluate the effect of sales and net profits on Indian stock returns.

    b. The similar study which was conducted in developed countries states there is positive relationship between the variables.

    c. Therefore, this study is carried out to assess the effect of independent variable on the dependent variable in the developing country India.

    d. This paper expects to assist investors for maximization of their returns a for better decision making on their investment.

    e. The study will provide an information in the form of results which can be used the prospective traders independently in arriving at the sound decision making in order to purchase the stocks.

LIMITATIONS:

   i. This paper mainly focuses on the secondary data which is available on National stock exchange. The correctness of data may affect the results of the study.

  ii. This study considers only specific factors such as sales and net profits and ignores the other factors like market conditions, macro-economic factors.

 iii. The period of 5 years data is considered for analysis. Further researchers can increase the sample size and data collection period for more appropriate results.

V.   DATA ANALYSIS AND INTERPRETATION

The present study is conducted to examine the effect of sales and net profits on Indian stock returns. In the process of finding the relationship between sales, net profits and stock return, we have used simple linear regression analysis which helps us in the determination of the relationship between independent variable and dependent variables. The considered variables are Sales, Net profit and Stock return where Sales and Net Profit are explanatory variables (Independent variable) and Stock return is dependent variable.

The financial year end Sales and Net profit are taken from financial statements and stock return is calculated by taking consideration daily stock prices. (Chandra, Ervin, & fadrul, 2015) Net profit in our analysis is measured by the ratio of earnings per share, it is a ratio which indicates the share of profit for each share

EPS= Net profit/Number of shares outstanding

In table1&2 which consists data analysis, linear regression equation is $Y = a + bX$, where X is the independent variable and Y is the dependent variable. a is the value Y, X=0(Constant), b= slope.

Regression analysis is said to be an important statistical tool which helps for analysing the degree of relationship between to variables. Therefore, we selected the companies on basis of highest market capitalization and we collected the daily stock returns data of top 6 companies listed in national stock exchange from the period 2013-2018. We have also used the R Square (Co-efficient of determination) for the measurement of the percentage of change in stock return which is caused by sales and net profits. In order to determine the significant relationship between the stock return and sales, net profits, we have

arrived at weighted average returns of the stock on the basis of daily returns over our research period. For the calculation of above considered weighted average stock return the formula is as follows:

Stock Return = (P1-P0)/P0*100

P1 represents current price of the day

P0 represents previous day's closing price

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he process of data analysis has also included to regress the stock returns against sales and net profits. Then further we proceeded with the test of significances between the average stock return of telecom companies with sales and net profits.

According to the research, our linear regression model is as follows:

Top 6 companies	Effect of Sales on Stock return						
	Mean square	R	R2	Adjusted R2	F-value	Significance	Beta
Bharti airtel	0.003	.426	0.182	-0.091	0.666	.474	-0.426
Vodafone idea	0.032	0.655	0.429	0.238	2.253	0.23	0.655
Tata communications	0.006	0.268	0.072	-0.238	0.231	0.663	-0.266
Reliance Communication	0.014	0.238	0.058	-0.258	0.179	0.7	0.238
MTNL	0.004	0.291	0.085	-0.22	0.278	0.634	0.291
Tata teleservices	0.002	0.345	0.119	-0.174	0.406	0.569	0.345

Table:2

Top 6 companies	Effect of Net Profit on Stock Returns						
	Mean square	R	R2	Adjusted R2	F-value	Significance	Beta
Bharti airtel	0.003	.483	0.233	-0.022	0.913	0.41	-0.483
Vodafone idea	0.002	0.171	0.029	.294.	0.09	0.783	0.171
Tata communications	0.069	0.947	0.897	0.863	26.098	0.015	0.947
Reliance Communication	0.014	0.24	0.058	-0.257	0.183	0.697	0.24
MTNL	0.012	0.523	0.273	0.031	1.128	0.366	-0.523
Tata teleservices	0.003	0.418	0.174	-0.1	0.636	0.483	0.418

Table:3

The above table provides the values of R and R Square. The value of Rstates the simple correlation between two variables. The value of R^2 indicates the degree of difference that is caused by dependent variable on the independent variable.

In the process of data analysis, the obtained results states that the significance level is more than 0.05(rule of thumb P-value<= 0.05 means Reject Null Hypothesis, test is significant). Therefore, in this study we failed to reject Null Hypothesis and the test is not significant.

As per the data shown above, The Net profits of Tata communication have significant impact on Stock returns whereas majority of the sample of our study shows that there is no significant impact.

VI.   FINDINGS AND SUGGESTIONS

As analysed in the previous section the study of effect of sales and profit in Indian telecom   stock returns showed there is no significant relationship. To make ease and appropriate interpretationthe findings of this study are presented in the form of tables.

The following table shows the statistical description of these two variables.

Top 6 telecom companies	Significance level of sales on stock return	Significance level of profit on stock return
Bharti airtel	.474	.410
Vodafone idea	.230	.783
Tata communications	.663	.015
Reliance Communication	.700	.697
MTNL	.634	.015
Tata teleservices	.569	.483

Table:4

The first hypothesis that is the effect of sales on stock return showed a no significant relationship. In this hypothesis stock return is dependent variable and sales is an independent variable. According to the above table significant level is>0.05 therefore H_0 is accepted and hence it is proved that sales does not have any effect on stock return.

The second hypothesis is the effect of net profits on stock return. In this hypothesis stock return is dependent variable and net profit is independent variable. The financial year ended profits is taken for analysis.

According to the above table the significant level is>0.05 therefore H0 is accepted and hence proved that net profits does not have any effect on stock return.

SUGGESTIONS:

This study would also suggest to do future research to evaluate the effect of sales and net profit on stock return in other sectors and recommends to use other financial factors. The investors are advised not to invest on stocks based on the assumption that high growth in revenue from operations will yield high profits for shareholders.

VII.   CONCLUSION

(Graham, 1949) in his Book the Intelligent Investor strongly recommended that obvious prospects for physical growth in a business will not translate into obvious profits for investor. In this research sales and profits are taken as independent variables of growth and hence proved that the sales and net profits does not have any relationship with the variation of share price. There is a basic assumption that the investor believes when there is a rise in the revenue or firm's growth, obviously the return of the stock will increase. but his expectations will not always lead to profits on the shareholders wealth. The previous research conducted by (Moshavegh & Montazerhojat, 2016) states that net profit, gross profit, return on assets, return on equity and EPS, all these financial ratios have significant relation with stock returns and also recommends managers of manufacturing companies to focus more on these financial ratios for future growth that have significant effect on stock returns.

This paper evidences that the sales and profits are non-linear to stock returns.(Chandra, Ervin, & fadrul, 2015) Companies with good performance will be able to provide an investment return to shareholders and stable investment return will attract the investors to invest.

This paper also provides scope for further study which recommends to include other factors affecting stock returns such as market conditions, micro and macro-economic factors and also advises to consider the data for longer study period to get better and accurate result.

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