SECTORIAL ANALYSIS OF SHARE PRICE MOVEMENTS IN NSE DURING THE PERIOD FROM 1st April 2007-31st March 2012

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ABSTRACT

The presence of Investment or investing is a term with several closely-related meanings in business management, finance and economics, related to saving or deferring consumption. Investment is the choice by the individual to risk his savings with the hope of gain. Rather than store the good produced, or its money equivalent, the investor chooses to use that good either to create a durable consumer or producer good, or to lend the original saved good to another in exchange for either interest or a share of the profits. The objective of this paper is to explore the sectorial Analysis of share price movements in NSE. The data used in this study is daily closing price of the market index(NSE-Index) over the period from 1st April 2007 to 31st March 2012. The study uses Moving Average, Beta and Correlation Analysis to assess the Sectorial Analysis of share price movements. It is found that there was the constant growth in these five years period of the study there is no peak or decline. The analysis of Sectorial Analysis Results proved that in the Indian stock market conditions GDP and inflation might be impact the future returns of equity shares.

Keywords: Investment, Sectorial Analysis, share price movements

1. INTRODUCTION

Investment or investing is a term with several closely-related meanings in business management, finance and economics, related to saving or deferring consumption. Investment is the choice by the individual to risk his savings with the hope of gain. Rather than store the good produced, or its money equivalent, the investor chooses to use that good either to create
a durable consumer or producer good, or to lend the original saved good to another in exchange for either interest or a share of the profits. In the first case, the individual creates durable consumer goods, hoping the services from the good will make his life better. In the second, the individual becomes an entrepreneur using the resource to produce goods and services for others in the hope of a profitable sale. The third case describes a lender, and the fourth describes an investor in a share of the business. In each case, the consumer obtains a durable asset or investment, and accounts for that asset by recording an equivalent liability. As time passes, and both prices and interest rates change, the value of the asset and liability also change. An asset is usually purchased, or equivalently a deposit is made in a bank, in hopes of getting a future return or interest from it. The word originates in the Latin "vestis", meaning garment, and refers to the act of putting things (money or other claims to resources) into others' pockets. The basic meaning of the term being an asset held to have some recurring or capital gains. It is an asset that is expected to give returns without any work on the asset per share.

II.REVIEW OF LITERATURE

McInish showed that propensity to seek novelty and avoid ill-defined and risky situations differed between investors who currently either owned or did not own each of a wide variety of types of assets. These results gave additional support to the findings of McInish (1982), Shefrin and Statman (1984) and Harlow and Brown (1990) that psychological approaches would be useful in explaining investor behavior.

Lease, et al., examined the disappearance of the individual investor from direct participation in the equity securities market place. Certainly, until there was a decent body of evidence on the small investors' personal situation, his self perceptions, the portfolio returns he had experienced, and the nature of his investment strategy deliberations, neither the financial community nor the regulatory authorities would be a position to contemplate actions with which to counteract his withdrawal or otherwise would be able to beneficially influence his behavior.

Baker and Haslem interpreted informational needs of the investors. The results suggested that individual used many different factors for analysis but exceptional factors dominated. The user information differed, and attached minor importance to financial statement and depended on stock brokers and advisory services for their investment information. Findings supported action which permits companies to include voluntary sales and earnings forecasts in their report filed with SEC.

Winsen stated that the association between publicly available information and stock-market activity was almost exclusively concerned with the behavior of stock prices. This emphasis on stock-price behavior obscured the effect of publicly available information on the investor. Such research that has been concerned with investor behavior had made no attempt to evaluate the efficiency of such behavior or the association between any inefficiency in such behavior and publicly available information.

Pettengill, et al., examined the stock selections of two groups of investors, professional analysts and individual investors. They found that both groups exhibited a strong preference to select momentum securities, but individual investors concentrated on securities with extreme momentum. The professional analysts were successful with the momentum strategy but the individual investors were not. They concluded that momentum investing was not a viable strategy for individual investors.
Waweru, et al., investigated the role of behavioural finance and investor psychology in investment decision-making at the Nairobi Stock Exchange with special reference to institutional investors. Using a sample of 23 institutional investors, the study established that behavioural factors such as representativeness, overconfidence, anchoring, gamblers’ fallacy, availability bias, loss aversion, regret aversion and mental accounting affected the decisions of the institutional investors operating at the NSE. Moreover, these investors made reference to the trading activity of the other institutional investors and often exhibited an institutional-herding behaviour in their investment decision-making.

III. STATEMENT OF THE PROBLEM

Any investment is the postponement present consumption and the same will be consumed in later period expecting more return or make available of more value for the future consumption. But there are so many avenues for the investors among which the recently popular and the widely accepted option of investment are corporate shares. In this, the investors indirectly participating in the profit of the organization. The investors investing in stocks not only for the share in profit but also capital appreciation. But in a stock investment there are two types of factors affecting the share price movements. One is fundamentals of the economy and the corporate, another technical movements or market psychology.

IV. SCOPE OF THE STUDY

Index movement of the stock exchange is the clear indicator of the fluctuation which acts as guideline for the investors. The movement of index can be captured by the nature of relationship between beta, returns and volatility. This study has been attempted to find out how far the beta will act as an indicator for the investors to take decision. The study was also helpful for the new investors, researchers, brokers etc., for decision making.

V. OBJECTIVES OF THE STUDY

- To study the share price movements of the selected nifty shares.
- To study the volatility in the NIFTY shares.
- To study the relation between GDP and Inflation on the Share Price movements

VI. RESEARCH METHODOLOGY

1. Sampling Technique
Sampling is the process of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible for us to generalizing such properties or characteristics.

2. Source of Data
All the data are collected from various websites like nseindia.com and bseindia.com for the share prices and SENSEX, indiainfoline.com and corresponding websites of each company.

3. Period of Study
The period of study is five years from 1st April 2007-31st March 2012.
VII TOOLS USED FOR ANALYSIS

• Moving Average
  The market indices do not rise or fall in a straight line. The upward and downward movements are interrupted by counter moves. The underlying trend can be studied by smoothening the data. To smooth the data moving average technique is used.
  The word moving average means that the body of the data moves ahead to include the recent observations. If it is a five day moving average on the sixth day the body of the data moves to include the sixth day observation. Likewise it continues. In the moving average calculation closing price of the stock is used.
  Yearly moving average is used for the closing price of the stocks. Since this is a comparative study we have to compare the share price movements of the companies. Since the share prices of each company differ a lot from others it is not possible to compare them using their share prices. It must be classified on a comparable mean with common base.

• Beta Analysis Result
  Almost all the company has less than one this indicates the stock of automobile industry are less volatile, banking industry are less volatile, cement & construction industry are less volatile except DLF, electrical industry are less volatile except ABB. Gas & oil industry are less volatile, metal & steel industry are less volatile, pharmaceutical industry are less volatile, power industry are less volatile except SUZLON, telecommunication industry are high volatile, automobile industry are less volatile except M & M, retail industry are less volatile. Other industry are high volatile except IDFC and RELINFRA.

• Correlation analysis Result
  Hypothesis: there is a relationship between economic indicators (GDP, WPI & CPI) and share price movements.
  To check this hypothesis GDP, WPI and CPI is taken for the five years of the study and correlated with the average share price of the NIFTY companies. The correlation is calculated for the different industries and presented sector wise in the following tables.
  Correlation analysis is done to compare the relationship between the share price movements and economic indicators (GDP, WPI & CPI).
  This analysis is individually done with economic indicators X and share price movements as Y and grouped industry wise.

Correlation of Share Price Movements of all Sectors and Economic Indicators
  Correlation of Share Price Movements of Automobile Sector, Banking Sector, Cement & Construction Sector, Electrical Sector, Gas & Oil Sector, Metal & Steel Sector, Pharmaceutical Sector, Power Sector, Telecommunication Sector, IT Sector, Retail Sector. Other Sector, positive correlative with GDP, inflation and share price movements. From the analysis it can be infer that share price movements positively correlated with GDP & WPI. It shows that when there is a increase in GDP & WPI, the share market is also moves up. When CPI is taken and correlated it gives negative result. It can be infer that investors do not consider CPI movements.
Table 1
Moving Average of Share Price of selected company Name the period 2007 -2012
(Values in Rs.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AXIS BANK</td>
<td>274.33</td>
<td>490.91</td>
<td>864.9</td>
<td>800</td>
<td>995.71</td>
</tr>
<tr>
<td>HDFC</td>
<td>718.91</td>
<td>1022.05</td>
<td>1251.13</td>
<td>1527.9</td>
<td>1749.5</td>
</tr>
<tr>
<td>HDFC BANK</td>
<td>825.89</td>
<td>1297.98</td>
<td>2628.65</td>
<td>1478.68</td>
<td>2647.81</td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>554.55</td>
<td>893.11</td>
<td>873.63</td>
<td>731.97</td>
<td>864.46</td>
</tr>
<tr>
<td>KOTAK BANK</td>
<td>343.77</td>
<td>339.69</td>
<td>1067.79</td>
<td>368.07</td>
<td>780.42</td>
</tr>
<tr>
<td>PNB</td>
<td>415.59</td>
<td>516.75</td>
<td>598.42</td>
<td>509.5</td>
<td>937.84</td>
</tr>
<tr>
<td>SBI</td>
<td>682.77</td>
<td>874.49</td>
<td>2034.32</td>
<td>1129.36</td>
<td>2186.75</td>
</tr>
</tbody>
</table>

Source: Computed from PROWESS

Graph-1
Moving Average of Share Price of selected company Name the period 2007 -2012

Sources: Computed from Table-1
Table 2

Beta Calculation of Banking Industry

The following table shows the beta values of companies under the automobile sector. The NIFTY movements and individual companies share price movements and beta value is calculated.

Table 4.14: Table Showing Beta Value of Banking Sector

<table>
<thead>
<tr>
<th>Company</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>AXIS BANK</td>
<td>0.97</td>
</tr>
<tr>
<td>HDFC BANK</td>
<td>0.98</td>
</tr>
<tr>
<td>HDFC</td>
<td>0.99</td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>0.98</td>
</tr>
<tr>
<td>KOTAK BANK</td>
<td>0.98</td>
</tr>
<tr>
<td>PNB</td>
<td>0.96</td>
</tr>
<tr>
<td>SBIN</td>
<td>0.98</td>
</tr>
</tbody>
</table>

Almost all the company has less than one this indicates the stock of banking industry are less volatile.

Source: Computed from PROWESS

Table 3

Showing Correlation Coefficient of Banking sector

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>AXISBANK</th>
<th>HDFC</th>
<th>HDFCBANK</th>
<th>ICICIBANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation (GDP)</td>
<td>0.909791</td>
<td>0.893428</td>
<td>0.906944</td>
<td>0.4104</td>
</tr>
<tr>
<td>Correlation (WPI)</td>
<td>0.85961</td>
<td>0.825799</td>
<td>0.854319</td>
<td>0.376688</td>
</tr>
<tr>
<td>Correlation (CPI)</td>
<td>0.876364</td>
<td>0.851807</td>
<td>0.870971</td>
<td>0.416325</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KOTAKBANK</th>
<th>PNB</th>
<th>SBIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.668565</td>
<td>0.817341</td>
<td>0.848422</td>
</tr>
<tr>
<td>0.580512</td>
<td>0.830434</td>
<td>0.789456</td>
</tr>
<tr>
<td>0.609674</td>
<td>0.813473</td>
<td>0.807788</td>
</tr>
</tbody>
</table>

Source: Computed from BROWESS
The following are important findings and suggestions of the study:

- It shows a constant growth in these five years period of the study there is no peak or decline.
- Except HERO HONDA rest of the companies shows high net gain.
- The entire companies share has grown during the period of the study except HINDALCO
- All the company’s share price moves with the market in banking industry.
- The companies in an electrical industry having good share price values.
- The volatility in shares in Gas & Oil industries is less.
- The SUNPHARMA alone shows a constant growth.
- The SUZLON have slow growth.
- TATAPOWER shows a constant increase in this industry.
- Metal & Steel industries net gain is high.
- The BHARTIARTL has a rapid growth among all the companies.
- All the company’s in cement & construction industries is now gradually growing.
- Investors in IT industries are getting minimum profit.
- Retail industries is booming the study period
- All companies are having high volatility except IDFC & LT.
- In today’s fluctuating market banking industry and computer software industry are highly sensitive
- So if investor wishes to get high return they can invest in banking industry especially in SBIN.
- It is also to be noted that the risk is also in investing these stocks since it depends on societal variation.
- Except reliance petroleum all the NIFTY company performing well, due to innovation & technology advancement. So we can expect a increase in share price as well stable income in the form of dividend.
- So for this reason if the investor wishes to get high returns he can well invest in these scrip’s of either pharmacy industry or power.

IX. CONCLUSION

The present study attempted to find whether GDP and inflation influence the return of equity shares. The analysis proved that in the Indian stock market conditions GDP and inflation might be impact the future returns of equity shares. Through the results were carefully obtained, it is mandatory necessary to mention here that the result is subject to the limitations as mentioned earlier in this study. It would be better if an analysis is carried out with a large sample to throw better light in the field. However it is conclude that GDP and inflation cannot be the only factor which affects the future returns of the equity shares in the Indian environment, as there are many parameters and indicators which shake the near fundamental of a stock market, like P/E ratio, market capitalization, flow of funds has domestic as well as international investors.
REFERENCES

Books


Journals


