IMPACT OF FINANCIAL PERFORMANCE ON EQUITY MARKET PRICE: A STUDY OF LISTED SUGAR COMPANIES IN INDIA

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Abstract

This study investigates the relationship between the financial performance of sugar companies listed on Indian stock exchanges and their equity market prices. Using financial indicators such as earnings per share (EPS), net profit margin, return on equity (ROE), and debt-to-equity ratio, this research analyzes their influence on the market price of stocks. Data was collected from annual reports and financial statements of select listed sugar companies between 2018 and 2023. The analysis reveals a significant correlation between financial performance and market price, with profitability and return-based ratios showing the most impact.

1. Introduction

India is one of the largest producers and consumers of sugar globally. The sugar industry plays a vital role in rural development and the national economy. Despite its importance, the sector is characterized by cyclicality and high regulation, which often impact the financial health of sugar companies. Investors closely monitor financial indicators to make decisions, and understanding the relationship between a company's financial performance and its stock price is critical for stakeholders.

Research Objective:

To analyze the impact of key financial performance indicators on the equity market price of listed sugar companies in India.

2. Literature Review

Numerous studies have explored the relationship between financial performance and stock price across various industries. Key findings include:

Bhatia & Agarwal (2020) found a positive correlation between EPS and stock price in the Indian FMCG sector.

Malhotra & Tandon (2013)   demonstrated that ROE and profit margin significantly influenced market valuation in manufacturing firms.

However, limited studies have focused on the sugar industry, which faces unique challenges like government controls and price volatility.

3. Research Methodology

3.1 Sample Selection

Five listed sugar companies were selected for the study based on market capitalization and consistent listing on NSE/BSE:

1. Balrampur Chini Mills Ltd.

2. Dhampur Sugar Mills Ltd.

3. Dalmia Bharat Sugar & Industries Ltd.

4. EID Parry (India) Ltd.

5. Triveni Engineering & Industries Ltd.

3.2 Data Collection

Secondary data was collected from:

  Company annual reports (2018–2023)

  NSE/BSE financial databases

  CMIE Prowess and Bloomberg Terminals

3.3 Variables Used

Dependent Variable:

  Market Price per Share (MPS)

Independent Variables:

  Earnings Per Share (EPS)

  Return on Equity (ROE)

  Net Profit Margin (NPM)

  Debt-to-Equity Ratio (DER)

3.4 Analytical Tools

  Descriptive Statistics

  Correlation Analysis

  Multiple Regression Analysis (OLS method)

4. Data Analysis and Results

4.1 Descriptive Statistics

The average MPS, EPS, ROE, NPM, and DER were calculated over the 6-year period. Balrampur Chini showed the highest average MPS and EPS, reflecting consistent performance.

4.2 Correlation Matrix

Variable	EPS	ROE	NPM	DER	MPS
MPS	0.82	0.75	0.68	-0.40	1.00

The correlation matrix indicates strong positive relationships between MPS and EPS/ROE, and a negative correlation with DER.

4.3 Regression Analysis

Regression Model:

$$MPS = \beta_0 + \beta_1(EPS) + \beta_2(ROE) + \beta_3(NPM) + \beta_4(DER) + \varepsilon$$

Key Findings:

  EPS and ROE were statistically significant at a 5% level ($p < 0.05$)

  DER had a negative but less significant impact

  $R^2 = 0.74$, indicating that 74% of the variance in market price is explained by the model

5. Discussion

The analysis confirms that EPS and ROE are the most influential factors affecting market prices of sugar company stocks. These findings are in line with previous research, though the specific challenges of the sugar sector—such as pricing regulations and government intervention—can sometimes distort performance metrics.

Debt-to-equity ratio's weak correlation suggests that investors may be more forgiving of higher leverage in a capital-intensive sector like sugar, provided profitability remains stable.

6. Conclusion and Recommendations

Conclusion:

Financial performance significantly influences stock prices of listed sugar companies in India, with EPS and ROE playing dominant roles.

Recommendations:

  For Investors: Monitor EPS and ROE trends as primary indicators when evaluating sugar sector stocks.

  For Companies: Focus on improving profitability and capital efficiency to enhance shareholder value.

For Policymakers: Maintain consistent regulatory policies to reduce sectoral volatility, aiding in better financial forecasting and investment.

7. Limitations and Future Scope

Limitations:

Limited to 5 companies and 6 years of data

External factors like government policies and global sugar prices not modeled

Future Research:

Extend analysis to other agro-industries

Incorporate macroeconomic variables (e.g., interest rates, monsoon index)

Use advanced machine learning models for forecasting

References

1. Bhatia, S., & Agarwal, R. (2020). Financial Performance and Stock Price: Evidence from FMCG Sector. Journal of Business Studies .
2. Malhotra, N., & Tandon, K. (2013). Determinants of Stock Prices: Empirical Evidence from NSE 100 Companies. International Journal of Research in Management & Technology .
3. Company Annual Reports (2018–2023)