

Study of Factors Influencing the Stock Prices of Selected IT, Cement and Pharmaceutical Companies in Indian (2011-2016)

Anurag Agnihotri

College of Vocational Study, Delhi University, Delhi, India; dranuragagnihotri7@gmail.com

Abstract

This paper investigate the factors which influence the stock price of any company with a focus on selected Cement, Pharmaceutical and IT company. The future price of any stock depends on certain factors such as EPS, DPS and PE. The studies explain that dividend and P/E Ratio impact the stock prices but they have not taken the EPS as factor responsible for stock price. So for this paper we have taken three factors EPS, Dividend and Price earnings Ratio as factors which may influence the price of stock with specific reference to Cement, Pharma and IT sector companies. For this research paper, research methodology is exploratory in nature. The statistical tools like correlation and regression were used to analyzed the data. It was observed that EPS, DPS and PE highly correlated to the future price of many companies of different sectors however few are influenced by the PE Ratio.

Keywords: Cement, Dividend, EPS, IT, NIFTY, Pharma, PE Ratio

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1. Introduction

The market price of stock is outcome of the function of different factors such as dividend, EPS (EPS), Price earnings ratio (PE), growth of company and economic factors. However out of the above factors Dividend, EPS and PE ratio are the main factors in determining the stock price in short time whereas Economic and growth of company are the long run expectations.

2. Objectives

The objectives of this paper are to find out the influence of EPS, DPS, PE on the selected companies of cement, Pharmaceutical and IT industry. It is also find out the relationship of these independent variables on the price of a share.

3. Literature Review

In order to study the relationship of different factors and stock prices of different companies, A research of existing studies was conducted and some of them are given here. Levy and Lerman (1985) and (Jaffe, Keim and Westfield, 1989)⁴ incorporate transactions costs and found a low relationship with size of firm and also explained that PE effect will be more on stock in January. Fairfield (1994)² explained predicts that Price to Book ratio (P/B) is positively related with the future return of stock. Campbell and Shiller (1998, 2001)¹ found that PE is accurate in forecasting the

stock price changes. Raymond (2002)⁶ found that PE is affected by the various pattern in the growth of company and its dividend. Any variation in the dividend will affect the PE of stocks. Nishat and Irfan (2003)⁵ found that dividend increase, Size and leverage had significant impact on stock price volatility.

The above studies explain the dividend and P/E Ratio impact the stock prices but these have not taken the EPS as factor responsible for stock price. So for this paper we have taken three factors EPS, Dividend and Price earnings Ratio as factors which may influence the price of stock.

4. Research Methodology

The research methodology for this paper is analytical in nature. For this paper, researcher have taken 15 companies which are listed on NSE, from Cement, Pharma and IT sector The data is taken for 5 years for the period of 2011-16. The Cement sector companies are ACC, Birla, Gujrat Ambuja, Madras and Grasim Cement. The Pharma Sector companies are Cipla, Dr. Reddy, Ranbaxy, Sterling and torrent. The IT Sector companies include HCL, Infosys, TCS, Visual soft and Wipro.

Statistical tools: The data are analyzed through statistical method. There are various statistical tools to analysis the data. It includes Regression, Correlation, Multiple regression.

$$r = \frac{n(\sum XY) - (\sum X)(\sum Y)}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

5. Multiple Regression Analysis

Multiple regression analysis is a statistical tools which explain the relationship between two or more independent variables with some other variable. This is a linear model which is expressed as $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_j X_k$. It provide the value of one variable based on other independent variables.

6. Individual Test

An individual test produces a statistical result for testing each variable influenced with its dependent variable and results produced is in the form of acceptance or rejections of a set hypothesis.

7. Data analysis

The data collected from the NSE website was analysed by using correlation, multiple regression and Anova was used. The detailed sector wise analysis is given below:

Table 1. Cement Industry

S. No	Name of the company	Price/Eps		Price/Dps		Price/Pe	
		R	r ²	r	r ²	R	r ²
1	ACC	0.850	0.723	0.942	0.887	0.576	0.332
2	BIRLA	0.985	0.971	1.000	1.000	0.999	0.997
3	GUJ AMB	0.716	0.513	0.784	0.615	0.983	0.966
4	MADRAS	0.839	0.703	0.970	0.942	0.473	0.223
5	GRASIM	0.928	0.862	0.973	0.947	0.853	0.728

The above data explain that all the company's share price is highly correlated and influenced by the EPS, DPS except the Gujrat Ambuja. However based on PE, the stock price of Gujrat Ambuja and Birla are greatly influenced by the PE of company. The r² is the correct measure to test the dependency of dependent variable on independent variable.

Table 2. IT Industry

S. No	Name of the company	Price/Eps		Price/Dps		Price/Pe	
		r	r ²	r	r ²	r	r ²
1	HCL	0.539	0.291	0.635	0.403	0.970	0.941
2	INFOSYS	0.394	0.155	0.692	0.479	0.867	0.752
3	TCS	0.610	0.372	0.841	0.708	0.709	0.503
4	VISUAL SOFT	0.767	0.589	0.180	0.032	0.883	0.780
5	WIPRO	0.610	0.372	0.841	0.708	0.709	0.503

From the table 2 it can be found that HCL, Infosys, TCS Visual Soft and Wipro are having positive relation with respect to EPS, DPS, PE with price of share of these companies. HCL

Infosys and WIPRO are influenced by the PE most. TCS and Wipro has high correlation with DPS.

Table 3. Pharma Industry

S. No	Name of the company	Price/Eps		Price/Dps		Price/Pe	
		R	r ²	r	r ²	r	r ²
1	CIPLA	0.720	0.518	0.627	0.394	0.107	0.011
2	DR REDDY	0.660	0.435	0.273	0.074	0.761	0.579
3	RANBAXY*	0.921	0.849	0.990	0.980	0.591	0.350
4	STERLING	0.675	0.456	0.382	0.146	0.787	0.620
5	TORRENT	0.765	0.585	0.760	0.577	0.980	0.960

* Ranbaxy data is for 2011-12 and 2013

CIPLA has high correlation with EPS and least with PE. Dr. Reddy is mostly influenced by the PE. Ranbaxy has very high correlation with respect to EPS, DPS and PE. Sterling is mostly influenced by PE and least with DPS. Torrent is influenced by the PE and followed by the EPS and DPS.

For ACC, the equation is $Y = -3.107 - 0.964DPS + 1.483EPS + 1.160P/E$. Similarly Equations can be written for other companies and 't' the standard regression coefficient is calculated as $t = (b_i - B_i) / S_{bi}$ Where, b_i the slope of fitted regression, B_i the actual slope hypothesized for the population, S_{bi} the standard error of the regression coefficient.

Degrees of freedom = $n - k - 1$, $B_i = 0$ (Assumption), For intercept of ACC,

$t = (-3.107 - 0) / 6.275 = -0.495$ As the same it is calculated for the other companies.

8. Interpretation

It can be said that for ACC at 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B = 0$. For BIRLA, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B = 0$. For GUJ AMB, at 10% significance level all independent variables are proved as $B \neq 0$. but at 5% of significance DPS, Earnings Per Share are proved as independent variables by $B = 0$. For MADRAS, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B = 0$. For GRASIM, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B = 0$.

From the above table, Probability value of ACC (0.313) > Significance level (0.05). So, Null hypothesis is accepted. Probability value of BIRLA (0.004) < Significance level (0.05). So, Null hypothesis is rejected. Probability value of GUJ AMB (0.044) < Significance level (0.05), So, Null hypothesis is

Table 4. T-values for constant and coefficient and standard error of cement sector

Company	Variables	Co-efficients	Std. error	t	p-value	Remark
ACC	Constant	-3.107	6.275	-0.495	0.707	Accept H_0
	DPS	-0.096	3.042	-0.032	0.980	Accept H_0
	EPS	1.483	2.959	0.501	0.704	Accept H_0
	P/E	1.160	3.136	0.370	0.774	Accept H_0
BIRLA	Constant	0.937	0.002	455.975	0.001	Reject H_0
	DPS	-0.328	0.011	-31.063	0.020	Reject H_0
	EPS	-0.166	0.004	-37.260	0.017	Reject H_0
	P/E	1.026	0.016	65.483	0.010	Reject H_0
GUJ AMB	Constant	-2.128	0.257	-2.128	0.257	Accept H_0
	DPS	-0.259	0.070	-0.259	0.070	Accept H_0
	EPS	2.158	0.141	2.158	0.141	Accept H_0
	P/E	0.166	0.036	0.166	0.036	Reject H_0
MADRAS	Constant	-0.923	2.048	-0.451	0.730	Accept H_0
	DPS	1.510	0.672	2.247	0.267	Accept H_0
	EPS	0.024	0.275	0.088	0.944	Accept H_0
	P/E	-0.076	0.216	-0.354	0.783	Accept H_0
GRASIM	Constant	-1.978	0.507	-5.494	0.115	Accept H_0
	DPS	0.779	0.696	0.930	0.523	Accept H_0
	EPS	-1.978	0.507	3.916	0.159	Accept H_0
	P/E	0.779	0.696	2.560	0.237	Accept H_0

Table 5. Regression Analysis

Cement Sector	Multiple R	Multiple R ²	Adjusted R ²	Std. Error of Estimate
ACC	0.969	0.938	0.754	0.0942
BIRLA	1.000	1.000	1.000	0.0029
GUJ AMB	0.999	0.999	0.995	0.0115
MADRAS	0.980	0.961	0.844	0.0767
GRASIM	0.998	0.997	0.987	0.0336

Table 6. Anova Table

Cement Sector	Source	Sum of Square	DF	Mean Sum of Square	F	p-value
ACC	Regression	0.1350	3.0000	0.0452	5.085	0.313
	Residual	0.0089	1.0000	0.0089		
BIRLA	Regression	0.8890	3.0000	0.2960	35441.8	0.004
	Residual	0.0000	1.0000	0.0000		
GUJ AMB	Regression	0.1090	3.0000	0.0364	273.864	0.044
	Residual	0.0001	1.0000	0.0001		
MADRAS	Regression	0.1450	3.0000	0.0485	8.235	0.249
	Residual	0.0059	1.0000	0.0059		
GRASIM	Regression	0.3580	3.0000	0.1190	105.853	0.071
	Residual	0.0011	1.0000	0.0011		

Table 7. Values for constant and coefficient and standard error of IT sector

Company	Variables	Co-efficient	Std. error	t	p-value	Remark
HCL	Constant	-2.2620	2.621	-0.863	0.547	Accept H_0
	DPS	0.2640	0.248	1.064	0.480	Accept H_0
	EPS	0.5910	0.154	3.843	0.162	Accept H_0
	P/E	1.2660	1.116	1.134	0.460	Accept H_0
INFOSYS	Constant	-3.0130	1.528	-1.972	0.299	Accept H_0
	DPS	-0.0780	0.130	-0.599	0.656	Accept H_0
	EPS	1.2740	0.326	3.910	0.159	Accept H_0
	P/E	1.3110	0.569	2.304	0.261	Accept H_0
TCS	Constant	-2.0520	1.038	-1.976	0.298	Accept H_0
	DPS	-0.1080	0.230	-0.468	0.721	Accept H_0
	EPS	1.1950	0.574	2.082	0.285	Accept H_0
	P/E	0.9290	0.203	4.578	0.137	Accept H_0
VISUAL SOFT TECH	Constant	0.0683	0.477	0.143	0.910	Accept H_0
	DPS	-0.4360	0.074	-5.881	0.107	Accept H_0
	EPS	0.7970	0.079	10.097	0.063	Accept H_0
	P/E	0.6030	0.114	5.295	0.119	Accept H_0
WIPRO	Constant	-2.0520	1.038	-1.976	0.298	Accept H_0
	DPS	-0.1080	0.230	-0.468	0.721	Accept H_0
	EPS	1.1950	0.574	2.082	0.285	Accept H_0
	P/E	0.9290	0.203	4.578	0.137	Accept H_0

rejected. Probability value of MADRAS (0.249) > Significance level (0.05) So, Null hypothesis is accepted. Probability value of GRASIM (0.071) > Significance level (0.05) So, Null hypothesis is accepted. At 10% significance level all the company null hypothesis are rejected. (i.e.) All the independent variables are significant explanatory variable of share price movements. At 5% significance level, the ACC and MADRAS, GRASIM Null hypothesis are accepted. And other companies H_0 are rejected.

9. Regression Equation

$Y = a + b_1X_1 + b_2X_2 + b_3X_3$, Where 'a' is the Regression constant. 'b₁, b₂, b₃' is the Regression coefficient. **For HCL**, the equation is $Y = -2.262 + 0.264 \text{ DPS} + 0.591 \text{ EPS} + 1.266 \text{ P/E}$. Similarly Equations can be written for other companies. 't' the standard regression coefficient is calculated as $t = (b_i - B_i) / S_{b_i}$ where, b_i the slope of fitted regression, the actual slope hypothesized for the population, S_{b_i} the standard error of the regression coefficient. Degrees of freedom = n-k-1. B_i = 0 (Assumption), For intercept of HCL, $t = -2.262 / 2.621 = -0.863$

10. Interpretation

It can be said that **HCL**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all

three independent variables are proved as $B=0$. **For INFOSYS**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$. **For TCS**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$. **For VISUAL SOFT TECH**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$. **For WIPRO**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$.

Table 8. Regression Analysis

IT Sector	Multiple R	Multiple R ²	Adjusted R ²	Std. Error of Estimate
HCL	0.987	0.974	0.897	0.0435
INFOSYS	1.000	0.999	0.998	0.0086
TCS	0.995	0.989	0.958	0.0353
VISUAL SOFT TECH	0.999	0.998	0.993	0.0069
WIPRO	0.995	0.989	0.958	0.0353

From the above table, it can be found that Probability value of HCL (0.203) > Significance level (0.05). So, Null hypothesis is accepted, INFOSYS (0.030) < Significance level (0.05). So, Null

Table 9. Anova Table

IT Sector	Source	Sum of Square	DF	Mean Sum of Square	F	p-value
HCL	Regression	0.07200	3.00000	0.02400	12.663	0.203
	Residual	0.00190	1.00000	0.00190		
INFOSYS	Regression	0.13200	3.00000	0.04390	597.870	0.030
	Residual	0.00007	1.00000	0.00007		
TCS	Regression	0.11600	3.00000	0.03876	31.072	0.131
	Residual	0.00125	1.00000	0.00125		
VISUAL SOFT TECH	Regression	0.02778	3.00000	0.00926	195.354	0.053
	Residual	0.00005	1.00000	0.00005		
WIPRO	Regression	0.11600	3.00000	0.03876	31.072	0.131
	Residual	0.00125	1.00000	0.00125		

hypothesis is rejected, TCS (0.131) > Significance level (0.05), So, Null hypothesis is accepted. Probability value of VISUAL SOFT TECH (0.053) > Significance level (0.05)

So, Null hypothesis is accepted, WIPRO (0.131) > Significance level (0.05) Null hypothesis is accepted. At 10% significance level Infosys and Visual Soft Tech Companies null hypothesis are rejected. All the independent variables are not significant explanatory variable of share price movements. At 5% significance level,

the Infosys Companies null hypothesis is rejected. And other companies H_0 are accepted.

It can be said that **CIPLA**, $Y = -0.388 + 0.430 \text{ DPS} + 0.924 \text{ EPS} - 0.161 \text{ P/E}$, Equations can be written for other companies. 't' the standard regression coefficient is calculated as $t = (b_i - B_i) / S_{b_i}$ where, b_i the slope of fitted regression, B_i the actual slope hypothesized for the population, S_{b_i} the standard error of the regression coefficient. For intercept of CIPLA, $t = -0.388 / 0.657 = -0.592$

Table 10. T-values for constant and coefficient and standard error of pharma sector

Company	Variables	Co-efficients	Std. error	t	p-value	Remark
CIPLA	Constant	-0.3880	0.657	-0.592	0.660	Accept H_0
	DPS	0.4300	0.082	5.269	0.119	Accept H_0
	EPS	0.9240	0.228	4.045	0.154	Accept H_0
	P/E	-0.1610	0.066	-2.445	0.247	Accept H_0
DR REDDY	Constant	2.4900	2.155	1.156	0.454	Accept H_0
	DPS	-0.0070	0.222	-0.031	0.980	Accept H_0
	EPS	-0.1920	0.513	-0.375	0.772	Accept H_0
	P/E	-0.0475	0.382	-0.124	0.921	Accept H_0
RANBAXY	Constant	-1.3130	1.060	-1.239	0.432	Accept H_0
	DPS	0.1260	0.282	0.446	0.733	Accept H_0
	EPS	0.7570	0.477	1.587	0.358	Accept H_0
	P/E	0.7720	0.343	2.253	0.266	Accept H_0
STERLING	Constant	-2.4620	7.254	-0.339	0.792	Accept H_0
	DPS	-3.9510	5.233	-0.755	0.588	Accept H_0
	EPS	3.4070	3.536	0.964	0.512	Accept H_0
	P/E	2.9710	4.874	0.610	0.652	Accept H_0
TORRENT	Constant	-1.3260	1.408	-0.942	0.519	Accept H_0
	DPS	-0.2540	0.796	-0.320	0.803	Accept H_0
	EPS	1.0850	0.037	29.540	0.022	Reject H_0
	P/E	0.8330	0.117	7.145	0.089	Accept H_0

11. Interpretation

It can be said that **CIPLA** At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$. **For DR REDDY**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$. **For RANBAXY**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$. **For STERLING**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance all three independent variables are proved as $B=0$. **For TORRENT**, At 10% significance level all independent variables are proved as $B \neq 0$. But at 5% of significance **DPS**, and **Price Earning Ratio** are proved as independent variables by $B=0$.

Table 11. Regression Analysis

PHARMA Sector	Multiple R	Multiple R ²	Adjusted R ²	Std. Error of Estimate
CIPLA	0.992	0.983	0.933	0.0261
DR REDDY	0.769	0.591	-0.636	0.0619
RANBAXY	0.999	0.998	0.991	0.0174
STERLING	0.875	0.766	0.063	0.6825
TORRENT	1.000	1.000	0.998	0.0104

From the above table, it can be said that Probability value of **CIPLA** (0.164) > Significance level (0.05). **DR REDDY** (0.755) > Significance level (0.05). **RANBAXY** (0.60) > Significance level (0.05), **STERLING** (0.591) > Significance level (0.05), **TORRENT** (0.026) < Significance level (0.05). So, Null hypothesis is rejected. At 10% significance level **Ranbaxy** and **Torrent** Companies null hypothesis are rejected. All the independent variables are not significant explanatory variable of share price

movements. At 5% significance level, **Ranbaxy** and **Torrent** Companies null hypothesis is rejected. And other companies H_0 are accepted.

12. Findings

EPS of the cement companies also have direct relation with the share price of **ACC**, **Madras** and **Grasim** Cement. The **Price Earning Ratio** is having high impact on **Gujarat Ambuja** cement, Even though it has positive correlation with other companies. It is found through the global test of 5% significance level that the Null Hypothesis of **ACC** Cement, **Madras** Cement, and **Grasim** Cement are accepted (i.e.) but two companies viz., **Birla** Cement, **Gujarat Ambuja** Cement are rejected. If 10% significance level is opted then **ACC** Cement, **Madras** cement, companies Null hypothesis are rejected. And the other companies **Birla** cement, **Gujarat Ambuja** Cement is accepted. So it is clear that the independent variables taken into consideration are significant explanatory variable for **Birla** cement, **Gujarat Ambuja** Cement, and **Grasim** Cement. In the individual test of 5% significance level, except **Birla** Cement's **Dividend Per Share**, **Earnings Per Share**, **Price Earning Ratio**, **Gujarat Ambujas** Cement **Price Earning Ratio**, all other company's independent variables are proved as significant explanatory variables. But at 10% significance level except **ACC** cement, **Gujarat Ambuja** cement's **Earnings Per Share**, **Madras** cement, **Grasim** cement's all variables. Other independent variables are proved as significant explanatory variable. So we can conclude that all independent variables are not significant explanatory variables as far as **Cement Sector** is concern.

It was also observed that **Earnings Per Share** is also having slight impact on all companies even though they are positively correlated with other companies. It is found through global test of 5% significant level is that the Null hypothesis of **Infosys** is rejected (i.e.) the variables are significantly explanatory variables.

Table 12. Anova Table

Pharma Sector	Source	Sum of Square	DF	Mean Sum of Square	F	p-value
CIPLA	Regression	0.0401	3.0000	0.0134	19.656	0.164
	Residual	0.0007	1.0000	0.0007		
DR REDDY	Regression	0.0055	3.0000	0.0018	0.482	0.755
	Residual	0.0038	1.0000	0.0038		
RANBAXY	Regression	0.1360	3.0000	0.0455	150.19	0.60
	Residual	0.0003	1.0000	0.0003		
STERLING	Regression	1.5230	3.0000	0.5080	1.090	0.591
	Residual	0.4660	1.0000	0.4660		
TORRENT	Regression	0.2620	3.0000	0.0874	801.18	0.026
	Residual	0.0001	1.0000	0.0001		

And other companies HCL, TCS, Visual soft, Wipro are accepted. If 10% significance level is opted then HCL, TCS, Wipro's null hypothesis are accepted (i.e.) the independent variables are not significantly explanatory variables in these companies. Individual test of 5% significance level, all the hypothesis is accepted which proves, as the variables are not significantly explanatory variables. But at 10% significance level also the hypothesis are accepted for all companies except Visual soft's Earnings Per Share, which says that all variables are not significantly explanatory variable. So we conclude that all independent variables are not significant explanatory variable as far as IT sector is concerned.

The Dividend Per Share is also having impact on three companies Dr Reddy, Sterling, Torrent. Even though they are positively correlated their impact is slighter in other companies. It is found through global test of 5% significance level is that Null hypothesis of Torrent is rejected. (i.e.) the independent variable are significantly explanatory variables and the other companies Cipla, Dr. Reddy, Ranbaxy, Sterling's variables are not significantly explanatory variables. When we opt for 10% significance level Ranbaxy, Torrent null hypothesis is rejected which says the variable are not significant explanatory variables. Individual test of 5% significance level all companies null hypothesis are accepted except Torrent's Earnings Per Share, which says that variables of the companies are not significantly explanatory variable. But when we opt for 10% significance level null hypothesis of all companies are accepted except Torrent Earnings Per Share, which says the variables are not significantly explanatory variable. So we conclude that all variables are not significantly explanatory variables in pharma sector.

13. Conclusion

Based on the data available and findings, It can be concluded that EPS, DPS, PE and book value per share plays an important

role in determination of share price of any company. It is found that DPS of Cement industries is positively correlated and influence the share price of the companies of this industry like ACC Cement, Madras Cement, and Grasim Cements. It is found that E.P.S of Pharmaceutical companies have direct relationship with share price of companies like Dr. Reddy, Ranbaxy, Sterling, and Torrent. Price Earning Ratio is having high positive correlation with Dr. Reddy, Sterling, and Torrent. It is found that Earnings per Share is major factor in influencing the share price of IT companies like HCL, Infosys, and Visual Soft.

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Anurag Agnihotri

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