DISCRIMINATORY POWER OF SELECTED RATIOS IN DEFINING STOCK MARKET PERFORMANCE OF AUTOMOBILE COMPANIES IN INDIA

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ABSTRACT

The main focus of the paper is to investigate the relationship between financial ratios and stock returns and to find the ratio(s) which can discriminate between outperformers and underperformers in stock market. Multiple discriminant analysis models with Wilks' Lambda were used on fourteen selected companies from April 1, 2004 to March 31, 2016. Market capitalization was the basis for this selection. For this a basic model was developed to identify the potential Good stock market performer and the Poor stock market performer, based on the Predictor variable viz. Eight ratios which were identified by the Discriminant Analysis. The classification summary shows that a good number of original Groups were correctly classified in to "Good" performer and "Poor" performer. This indicates a very good predictive capacity of the selected ratios. Also it has been concluded that financial variables viz. financial ratios have impact on the Capital Structure of the Automobile companies In India. The Market cap/Net Operating Revenue, Current ratio are the important set of ratio, having impact on financial performance of the companies. Revenue from operations/share, Asset turnover Ratio, Cash earnings Retention Ratio, PBDIT/share having moderate impact on financial performance of companies and Quick ratio and EV/Net operating Revenue are the set of ratios, having less impact on financial performance of companies.

KEYWORDS: Ratio Analysis, Automobile Industry, Multiple Discriminant Analysis, Average Market Stock Returns