



Dissection of Stock Performance of Non-Banking Financial Companies in India.

KEYWORDS

Mahendrakumar

Research Scholar Department of Commerce Gulbarga University GULBARGA: 585 106 Karnataka

Dr. B.M. Kanahalli

Professor Department of Commerce Gulbarga University GULBARGA: 585 106 Karnataka

INTRODUCTION.

Unlike bonds, where in the return are dependent on only one source under normal circumstances, which is itself known before hand i.e., interest income, the returns for equity are dependent on two reasons.

- i. Fundamental
- ii. Speculative

The fundamental element concerns the earnings behind the enterprise along with the dividend paid out during the holding period. The speculative element concerns the change in the appraisal of the market participants, as a group having a bearing on P/E expansion or contraction, thereby increasing or decreasing the total shareholder return. The speculative element can be simply calculated by the earnings multiplied by change in P/E Ratio and that number divided by the price paid, expressed as a percentage. This speculative element is the product of general sentiment prevailing and the presence of greed and fear amongst the investors. This is subject to fast changes and this is what makes the market volatile and unpredictable and, of course, interesting.

Keeping this in mind, an attempt is made to dissect the return into fundamental return and speculative return by applying it on select Non-Banking Housing Financial Companies.

HYPOTHESIS.

The following Hypothesis of the paper is formulated that,

The stock return is the combination of fundamental and technical factor. Hence it is hypothesised that stock return is not purely influenced by fundamental but also by speculative factors.

Objectives.

Keeping the above Hypothesis in mind, the basic objective of this paper is to dissect the performance in terms of return. Accordingly the following specific objectives have been set.

1. To know the stock return of different Non-Banking Housing Financial Companies.
2. To segregate the stock return into fundamental return, dividend return and speculative return respectively.
3. To offer learning lessons to investors in making investment/disinvestment decision.

Methodology.

In order to conduct the present study the following methodology is employed:

First, the specific stock return is found out using opening price & closing price of the respective stock for respective years symbolically.

$$SR = \frac{P1}{P0} - 1$$

P0

Where,

SR = Stock Return.

P1 = Closing stock market price.

Po = Opening stock market price.

The stock return generally consisted of fundamental return, dividend return and speculative return. Most of the times market is led by fundamental as well as by speculative activity. Therefore, respective returns are calculated symbolically in the following manner.

$$FR = \frac{EPS1}{EPS0} - 1$$

EPS0

Where,

FR = Fundamental Return

EPS1 = Earnings Per share at the close.

EPS0 = Earnings per share at the beginning.

Dividend return is a proxy for dividend yield which establishes the relationship between dividend per share and market price. Hence,

$$Dy = \frac{DPS}{P0}$$

P0

Where,

Dy = Dividend yield (Dividend Return)

DPS = Dividend Per Share at the close.

Then in the last speculative return is computed deducting

fundamental return and dividend return from stock return. The calculation of which is as follows.

$$SPR = SR - [FR + DR]$$

Where,

SPR = Speculative Return

FR = Fundamental Return

DR = Dividend Return

Finally an analysis is carried out to find the result and reasons.

Data Collection.

This study conceptually covers a period of Fourteen years starting from 2001 to 2014. The data has been gathered only through secondary source for which bseindia.com and moneycontrol.com

. Sample Selection.

The whole Indian Non-Banking Housing Financial Companies serves the population for the study. For the present study, only five profit making stock market listed Indian Companies were selected. They are as under.

1. Dewan Housing Finance Ltd. (DHFL).
2. GIC Housing Finance Ltd. (GICHFL).
3. Gruh Housing Finance Ltd. (GHFL).
4. Housing Development Finance Corporation Ltd. (HDFCL).
5. LIC Housing Finance Ltd. (LICHFL).

Coverage of the Study.

The organization of the paper is undertaken in the following manner.

First section deal with introduction, second section brings Hypothesis, Objectives and Methodology, The third section contains coverage consisting of sources of information, Sample size and Key terms used for the study. In the fourth section, analyse is carried out and in Fifth section Suggestion & Conclusion are drawn.

Key Terms.

1. **Stock Return (SR):** The gain or loss of a security in a particular period. The return consists of the income and the capital gains relative on an investment. It is usually quoted as a percentage.
2. **Closing Stock Market Price :** The final price at which a security is traded on a given trading day. The closing price represents the most up-to-date valuation of a security until trading commences again on the next trading day.
3. **Opening Stock Market Price:** The price at which a security first trades upon the opening of an exchange on a given trading day.
4. **Fundamental Return (FR):** By looking at the economics of a business, the balance sheet, the income

statement, management and cash flow, investors are looking at a company's fundamentals, which help determine a company's health as well as its growth prospects. A company with little debt and a lot of cash is considered to have strong fundamentals.

While fundamentals are most often considered factors that relate to businesses, securities and currencies also have fundamentals. For example, interest rates, GDP growth, trade balance surplus/deficits and inflation levels are some macroeconomic factors that are considered to be fundamentals of a currency's value.

5. **Earning Per Share (EPS1) at the Close:** The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.
6. **Earnings per share (EPS0) at the beginning:** The average number of shares outstanding (the denominator of the EPS formula) is usually calculated by averaging the number of shares at the beginning of the earning period and the number of shares at the end of the period.
7. **Dividend Yield (DY):** A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock.
8. **Dividend Per Share (DPS):** The sum of declared dividends for every ordinary share issued. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.
9. **Speculative Return (SPR):** The act of trading in an asset, or conducting a financial transaction, that has a significant risk of losing most or all of the initial outlay, in expectation of a substantial gain. With speculation, the risk of loss is more than offset by the possibility of a huge gain; otherwise, there would be very little motivation to speculate. While it is often confused with gambling, the key difference is that speculation is generally tantamount to taking a calculated risk and is not dependent on pure chance, whereas gambling depends on totally random outcomes or chance.
10. **Dividend Return:** Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position - in other words, how much "bang for your buck" you are getting from dividends. Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable dividend yields.

Source: <https://en.wikipedia.org>, <http://www.investopedia.com>

Result & Analysis.

The Table Showing Stock Return, Fundamental "Return", Dividend Return & Speculative Return From 2001 to 2014.

Dewan Housing Finance Ltd.									
Year	Open Price	Close Price	DPS	EPS	Dy=DPS/CMP	SR=Closing/Opening-1	FR= EPSn/EPSo-1	DR=DPS/Open Price	SPR=Stock Ret-FMR+DR
2000	32.00	25.75	1.50	4.63	0.058	-0.195		0.047	
2001	15.60	15.00	1.50	4.14	0.100	-0.038	-0.106	0.096	-0.029
2002	15.25	18.50	1.50	4.45	0.081	0.213	0.075	0.098	0.040
2003	18.10	33.10	1.50	5.31	0.045	0.829	0.193	0.083	0.553
2004	33.00	34.65	2.50	6.13	0.072	0.050	0.154	0.076	-0.180
2005	35.05	62.20	2.00	5.33	0.032	0.775	-0.131	0.057	0.848
2006	63.00	75.10	2.50	8.32	0.033	0.192	0.561	0.040	-0.409
2007	75.65	214.60	2.50	9.28	0.012	1.837	0.115	0.033	1.688
2008	225.30	86.45	2.50	13.52	0.029	-0.616	0.457	0.011	-1.084
2009	83.75	187.55	2.50	15.15	0.013	1.239	0.121	0.030	1.089
2010	190.45	296.35	3.00	18.37	0.010	0.556	0.213	0.016	0.328
2011	309.00	180.00	3.50	25.39	0.019	-0.417	0.382	0.011	-0.811
2012	180.50	180.75	3.50	26.22	0.019	0.001	0.033	0.019	-0.051
2013	182.50	212.75	5.00	35.24	0.024	0.166	0.344	0.027	-0.206
2014	214.00	347.55	8.00	41.19	0.023	0.624	0.169	0.037	0.418
Av	117.225	138.896	3.000	15.574	0.037	0.386	0.184	0.045	0.157

GIC Housing Finance Ltd.									
Year	Open Price	Close Price	DPS	EPS	Dy=DPS/CMP	SR=Closing/Opening-1	FR=EPSn/EPSo-1	DR=DPS/Open Price	SPR=Stock Ret-FMR+DR
2000	14.30	9.50	1.00	2.17	0.105	-0.336		0.070	
2001	8.10	8.50	1.00	2.09	0.118	0.049	-0.037	0.123	-0.037
2002	8.45	11.35	1.00	0.67	0.088	0.343	-0.679	0.118	0.904
2003	11.25	37.55	1.25	3.71	0.033	2.338	4.537	0.111	-2.311
2004	37.60	34.05	1.50	6.17	0.044	-0.094	0.663	0.040	-0.797
2005	34.10	50.70	1.50	6.63	0.030	0.487	0.075	0.044	0.368
2006	51.10	44.95	1.50	12.29	0.033	-0.120	0.854	0.029	-1.003
2007	46.00	98.10	3.00	9.30	0.031	1.133	-0.243	0.065	1.311
2008	105.10	37.65	4.00	10.47	0.106	-0.642	0.126	0.038	-0.806
2009	38.00	91.00	4.00	10.61	0.044	1.395	0.013	0.105	1.276
2010	91.25	118.90	4.50	12.46	0.038	0.303	0.174	0.049	0.079
2011	119.95	70.10	5.50	21.13	0.078	-0.416	0.696	0.046	-1.157
2012	70.15	127.95	4.50	10.96	0.035	0.824	-0.481	0.064	1.241
2013	129.40	104.10	5.00	15.79	0.048	-0.196	0.441	0.039	-0.675
2014	104.65	156.25	6.00	18.11	0.038	0.493	0.147	0.057	0.289
Av	61.079	70.796	3.161	10.028	0.055	0.421	0.449	0.066	-0.094

Gruh Housing Finance Ltd.

Year	Open Price	Close Price	DPS	EPS	Dy=DPS/ CMP	SR=Closing/ Opening-1	FR= EPSn/ EPSo-1	DR=DPS/ Open Price	SPR=Stock Ret- FMR+DR
2000	9.00	12.25	0.50	1.62	0.041	0.361		0.056	
2001	12.10	15.45	0.80	2.28	0.052	0.277	0.407	0.066	-0.197
2002	15.60	17.40	1.20	3.02	0.069	0.115	0.325	0.077	-0.286
2003	17.20	38.30	1.50	3.84	0.039	1.227	0.272	0.087	0.868
2004	37.35	37.55	1.80	4.57	0.048	0.005	0.190	0.048	-0.233
2005	38.00	78.15	2.10	6.28	0.027	1.057	0.374	0.055	0.627
2006	77.25	135.20	2.50	8.18	0.018	0.750	0.303	0.032	0.415
2007	133.35	205.05	3.00	8.55	0.015	0.538	0.045	0.022	0.470
2008	206.90	101.00	4.00	12.22	0.040	-0.512	0.429	0.019	-0.960
2009	102.10	208.40	4.80	14.51	0.023	1.041	0.187	0.047	0.807
2010	210.00	399.65	6.50	19.86	0.016	0.903	0.369	0.031	0.503
2011	403.00	577.25	11.00	26.03	0.019	0.432	0.311	0.027	0.094
2012	571.90	236.90	11.50	34.09	0.049	-0.586	0.310	0.020	-0.916
2013	239.00	255.80	2.50	8.17	0.010	0.070	-0.760	0.010	0.820
2014	255.90	208.55	3.00	9.82	0.014	-0.185	0.202	0.012	-0.399
Av	165.689	179.618	4.014	11.530	0.031	0.367	0.212	0.040	0.115

HDFC Housing Finance Ltd.

Year	Open Price	Close Price	DPS	EPS	Dy=DPS/ CMP	SR=Closing/ Opening-1	FR= EPSn/ EPSo-1	DR=DPS/ Open Price	SPR=Stock Ret- FMR+DR
2000	300.00	541.85	19.00	33.73	0.035	0.806		0.063	
2001	554.25	663.05	12.50	39.44	0.019	0.196	0.169	0.023	0.004
2002	670.00	358.20	25.00	47.65	0.070	-0.465	0.208	0.037	-0.711
2003	358.00	644.35	11.00	28.24	0.017	0.800	-0.407	0.031	1.176
2004	648.50	766.10	13.50	34.54	0.018	0.181	0.223	0.021	-0.063
2005	769.00	1205.35	17.00	41.61	0.014	0.567	0.205	0.022	0.341
2006	1212.00	1624.55	20.00	50.38	0.012	0.340	0.211	0.017	0.113
2007	1615.00	2872.45	22.00	62.07	0.008	0.779	0.232	0.014	0.533
2008	2925.00	1487.55	25.00	85.77	0.017	-0.491	0.382	0.009	-0.882
2009	1495.00	2677.85	30.00	80.24	0.011	0.791	-0.064	0.020	0.836
2010	2681.00	727.95	36.00	98.45	0.049	-0.728	0.227	0.013	-0.969
2011	731.00	649.45	9.00	24.10	0.014	-0.112	-0.755	0.012	0.631
2012	648.15	828.10	11.00	27.91	0.013	0.278	0.158	0.017	0.103
2013	829.00	796.30	12.50	31.35	0.016	-0.039	0.123	0.015	-0.178
2014	799.30	1026.25	14.00	34.86	0.014	0.284	0.112	0.018	0.154
Ave	1138.229	1166.250	18.464	49.044	0.021	0.170	0.073	0.019	0.078

LIC Housing Finance Ltd.

Year	Open Price	Close Price	DPS	EPS	Dy=DPS/ CMP	SR=Closing/ Opening-1	FR= EPSn/ EPSo-1	DR=DPS/ Open Price	SPR=Stock Ret- FMR+DR
------	------------	-------------	-----	-----	----------------	--------------------------	---------------------	-----------------------	--------------------------

2000	35.95	31.90	3.00	14.53	0.094	-0.113		0.083	
2001	27.00	43.35	4.00	16.19	0.092	0.606	0.114	0.148	0.343
2002	43.25	64.30	5.00	19.67	0.078	0.487	0.215	0.116	0.156
2003	62.20	219.00	5.50	23.88	0.025	2.521	0.214	0.088	2.218
2004	217.00	206.75	5.00	22.35	0.024	-0.047	-0.064	0.023	-0.006
2005	207.00	196.95	5.00	16.92	0.025	-0.049	-0.243	0.024	0.170
2006	199.95	161.45	6.00	24.56	0.037	-0.193	0.452	0.030	-0.674
2007	162.00	381.95	8.00	32.87	0.021	1.358	0.338	0.049	0.970
2008	382.50	230.55	10.00	45.59	0.043	-0.397	0.387	0.026	-0.810
2009	234.60	803.55	13.00	62.59	0.016	2.425	0.373	0.055	1.997
2010	808.00	195.55	15.00	69.75	0.077	-0.758	0.114	0.019	-0.891
2011	196.55	221.60	3.50	20.53	0.016	0.127	-0.706	0.018	0.815
2012	221.00	291.35	3.60	18.11	0.012	0.318	-0.118	0.016	0.420
2013	293.50	219.20	3.80	20.27	0.017	-0.253	0.119	0.013	-0.385
2014	220.70	279.10	4.50	26.10	0.016	0.265	0.288	0.020	-0.043
Av	233.946	251.046	6.564	29.956	0.036	0.458	0.106	0.046	0.306

Investment in highest Dividend Yield stock makes the best stock return in 3 years. From this we infer that, in order to make maximum return from the equity investment in Non-Banking Housing Financial Companies, the investment in equity should be held not less than one year and more than 3 years. We can evidently seen from results that, DHFL having Dividend Yield of 10% in the year 2001 has made stock return of 82% in the year 2003, GIC Housing Finance having a Dividend Yield of 11.8% has yielded 234% stock return in 2003, and LIC Housing Finance Dividend Yield of 9% in 2001 has made a stock return of 252% in 2003. Therefore it is suggested to make investment in Non-Banking Housing Financial Companies stock on the basis of Dividend Yield and hold it at least for 3 years to realise the maximum return from stock investment. In all most all companies, the stock return is not exactly influenced by fundamentals of stock like earnings, dividends etc. Actually stock return that we make from the investment should equal the fundamental return and dividend return. It can evidently be seen from the results presented in the tables of respective companies. Average stock return for all most all companies of the study is in excess over sum of the fundamental return and dividend return. For Deawan Housing Finance, GIC Housing Finance, Gruh Housing Finance, HDFC Housing Finance & LIC Housing Finance average stock return for the entire study period was 38%, 42%, 36%, 17%, and 46% respectively. Whereas fundamental return & dividend return put together Dewan Housing Finance Ltd, 18% & 4% (22%), GIC Housing Finance Ltd, 44% & 6% (50%), Gruh Housing Finance Ltd, 21% and 4% (25%), HDFC 7% and 2% (9%) and LIC Housing Finance Ltd, 10% and 5% (15%) respectively.

This would indicate that return from stock most of the times arise due to speculative activity of investors on account of humour, rumour and human greed. Dividend Yield for Non-Banking Housing Financial Companies is ranged from 3% to 5% which is nearer to average expectation for dividend yield 4% in Indian capital market (BSE/NSE) average dividend yield of 4%. Hence investors advised to consider highest yielding stock for investment and also advised to hold them for at least 3 years.

Findings.

1. Dividend yield for Non-Banking Housing Financial companies for the study period is ranging from 3% to 5%.
2. Maximum stock return is available for Non-Banking Housing Financial companies for the study period is available only for equity investment for the period of 3 years.
3. Speculative return is not influenced purely by fundamental factors but by speculative factors.
4. Stock return is more than the sum of fundamental & dividend return for the study period.
5. High Dividend Yield stocks have greater provision for appreciation for which evidence is presented in the analysis.

Lessons to Investors.

1. Make investment in equity Share on the basis of dividend yield to reap the best profit on investment.
2. Equity investment should be held in for 3 years not less than 3 years and more than 5 years to avail the maximum benefit of investment.
3. Patience pays the profit on investment. Hence the investors are advised to have patience and discipline in controlling the emotions.

REFERENCE

1. Prasanna Chandra: Security Analysis and Portfolio Management. | 2. Compendium of Top 500 Companies in India. | 3. BSE India: <http://www.bseindia.com> | 4. Money Control: <http://www.moneycontrol.com> | 5. Annual Reports of Companies. |