

Earnings and Cash flow as Predictors of Stock Price : Evidence from Manufacturing Firms

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Abstract

This study intends to analyse the impact of cash flow and earnings per share on the share price. The study is conducted among sample companies selected from manufacturing industry. The research was designed as a descriptive one. The data is secondary and collected from the database known as CMIE Prowess IQ. Data were processed and analysed using the software Eviews 8. The analysis techniques used are Unit root test, Johansen cointegration test, Vector error correction model and Regression analysis. The results proved that the variables are stationary and do not have trend. The Johansen cointegration results lead to the conclusion that there is no long term relationship between the variables and the Vector Error Correction model tests proved that there is no short term relationship. The variables were also regressed to find whether the independent variables such as cash from operating activities, cash inflow or outflow and earnings per share has significant relationship with the dependent variable stock price.

JEL Code : M00, M10, M40, M41, M49.

Keywords : Earnings, Cash flow, share price, Unit root test, Johansen cointegration test, Vector error correction.

I. Introduction

A DEVELOPING ECONOMY must have a robust financial market with intense competition. As India's expansion accelerates yearly, businesses must obtain funds to support the country's capital requirements. In order to speed up financial services and strengthen India's financial markets, India's household savings, which are among the greatest in the world at 30%, can be converted into shares, bonds, and other products. According to Liu, Nissim, and Thomas, 2007 a value driver (such as earnings) of the company must be multiplied by the appropriate multiple, which is based on the relationship between stock price and that value driver for a group of comparable companies, in order to generate a company valuation. Although there are a number of value drivers, including different measurements of cash flow,

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Submitted October 2021; Accepted August 2023

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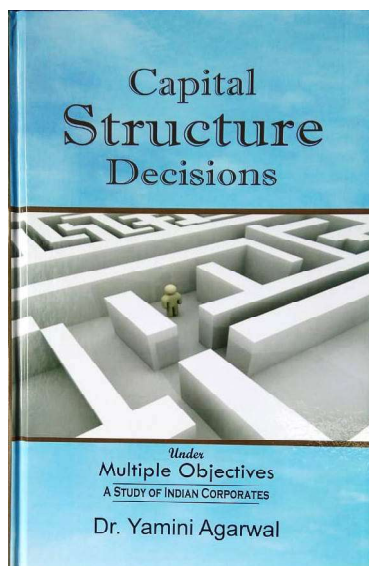
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Capital Structure Decisions under Multiple Objectives : A Study of India Corporates

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