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Ownership Pattern and its impact on stock price

Amit Ratilal Popat

Assistant Professor

Shri Sunshine Group of Institutions

RAJKOT (Gujarat-India)

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Abstract

Ownership structure of any company has been a serious agenda for a corporate governance and that of a performance of a firm. Thus, who owns the firm's equity and how does ownership affect firm value has been a topic investigated by researchers for decades. Thus, the ownership structure own firm performance has been widely tackled in a various developed market and more recently in emerging markets, but was less discussed before, these paper is a moderate attempt to address the relation of ownership structure of the firm and stock prise it investigates weather "The Ownership Pattern has Impact on stock price

Introduction

The ownership pattern of corporate enterprises can be broadly of three types: (i) Widely dispersed, ownership particularly amongst large number of individual shareholders; (ii) Promoters' dominated shareholding pattern where promoters may be owning 30% to 80% or more vis-a-vis individual shareholders who own less than 30% of the total capital and (iii) A unique ownership pattern where even banks and financial institutions, foreign Institutional investors or foreign individuals are the owners of the company.

The ownership pattern of corporate enterprises can be broadly divided into four major categories i.e.

- 1) Promoters: These are basically people who started and run the business.
- 2) FII: FII is investors or investment fund registered in a country out side of the one in which it is investing.
- 3) DII: DII is the Indian institutional investors who are investing in Indian financial market
- 4) General Public: These are the individual or a public who invest in a stock market.

List of abbreviations

BSE-Bombay Stock Exchange

NSE-National Stock Exchange.

NCDEX-National Commodities and Derivatives Exchange limited

MCX-Multi Commodities Exchange

SEBI- Securities and Exchange Board of India

IPO- Initial Public Offering

FII-Foreign Institutional Investor

DII-Domestic Institutional Investor

ADR-American Depository Receipt

GDR-Global Depository Receipt



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Overview of the companies :

Here we have taken two companies from each sector to identify whether or not the changes in ownership pattern will have any impact on stock price.

Reliance Industries Ltd.

Indian Oil Corporation Ltd.

Tata Steel Ltd.

Jindal Steel Ltd.

Hindustan Unilever Ltd.

Dabur India Limited

Hero Moto Corp

Mahindra & Mahindra Ltd.

TCS Ltd.

Wipro Technologies

NTPC Ltd.

Torrent Power

Bank of Baroda

State Bank of India

Avenue supermarts:

Future retail

Literature review :

- As the Indian equity market is growing, the trend and future prospects in ownership pattern has become a topic of great concern. a recent research survey by Ila Patnaik and Ajay Shah under the aegis of the NIPFP-DEA Research Program on Capital Flows and their Consequences. Their topic was "**An Investment choice of foreign and domestic institutional investors**".

- Khutia (2010) conducted a study on "**A Fundamental Analysis of Infosys Tech Ltd.**" The paper outlines the economic analysis on factors like Interest Rate, Foreign Exchange, Inflation etc. It also outlines industry analysis on the basis of Past performance, competitive structure and growth.



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- Karllins (2002) investigates **whether management ownership structure and holding are related to firm value** across a sample of 1433 of 18 emerging market.
- Tiwan and Verma (2009) conducted a study-"**Fundamental Analysis of Public Sector Banks in India**". The Study examined that fundamental analysis, which aims at developing an insight into the economic performance of the business is of paramount importance from the view point of investment decisions. In this study, financial analysis has been given more stress so as to find out the profitability position of the sample banks and to evaluate the intrinsic value of the firm. The article gives recommendations on investing in companies having high profit margin constantly.

Research Objective :

- ☐ Ownership pattern and its impact on Risk & Return.
- ☐ Ownership pattern and share price are positively related or not.
- ☐ To take investment decisions cautiously after studying risks involved in the same.
- ☐ Analysis of fundamentals to acquire a deep knowledge of the Indian industry.

Research Methodology :

Research Design: Exploratory study

Sources of Data: Secondary data

Data Collection Method: Internet and newspapers

Sampling Method: Convenience Sampling Method

Sampling size: Two companies from each sector are taken for the purpose of study

Statistical tool: Correlation analysis



Data analysis :

1.1 Promoter’s holding and Risk & Return on security

Company	Promoter	Return	S.D.
RELIANCE	50.03	0.14	1.71
IOC	51.50	-0.01	2.07
TATA STEEL	33.12	0.00	2.40
JINDAL STEEL	60.40	0.08	3.61
HUL	67.18	0.04	1.16
DABAR	67.88	0.05	1.30
HERO MOTO CORP	34.63	-0.06	2.89
M&M	51.19	-0.13	1.87
TCS	72.05	0.07	1.44
WIPRO	74.04	0.01	1.39
NTPC	54.14	0.02	1.56
TORRENT	36.21	0.06	1.74
BOB	71.60	-0.05	2.49
SBI	57.68	0.07	2.18
AVENUE	79.73	0.08	2.05
FUTURE RETAIL	53.02	-0.14	1.67

Promoter’s holdings and Risk & Return correlation of security

	PROMOTER	RETURN	S.D.
PROMOTER	1		
RETURN	0.2377	1	
S.D.	-0.2894	-0.0568	1



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Interpretation:

From the above table of promoter's holding and risk & return correlation, we can say that as promoter's holding in company is higher, the return would increase and risk would decrease. The companies in which promoter's holdings is higher they get dual advantage of Risk & return which shows the influence of promoter's holding on return & risk of that particular security.

1.2 FII's holding and Risk & Returns on security

Company	FII	Return	S.D.
RELIANCE	25.54	0.14	1.71
IOC	7.64	-0.01	2.07
TATA STEEL	15.34	0.00	2.40
JINDAL STEEL	14.42	0.08	3.61
HUL	12.32	0.04	1.16
DABAR	17.48	0.05	1.30
HERO MOTO CORP	35.29	-0.06	2.89
M&M	24.85	-0.13	1.87
TCS	15.90	0.07	1.44
WIPRO	8.42	0.01	1.39
NTPC	12.76	0.02	1.56
TORRENT	20.99	0.06	1.74
BOB	4.83	-0.05	2.49
SBI	10.98	0.07	2.18
AVENUE	6.21	0.08	2.05
FUTURE RETAIL	12.60	-0.14	1.67

**FII'S holding and Risk & Return Correlation of security**

	FII	RETURN	S.D.
FII	1		
RETURN	-0.0948	1	
S.D.	0.1378	-0.0568	1

Interpretation:

FII's holdings affect negatively to Return and simultaneously increase the Risk on the security. So, we can say that Domestic investor have to suffer dual disadvantages of market. As FII holding and return have negative correlation and it has positive correlations with risk. Which shows that as FII holding is increasing, return on that particular security is slightly decreasing and risk is increasing.

1.3 DII's holdings and Risk & Return on security

Company	DII	Return	S.D
RELIANCE	13.08	0.14	1.71
IOC	13.91	-0.01	2.07
TATA STEEL	29.46	0.00	2.40
JINDAL STEEL	13.01	0.08	3.61
HUL	6.68	0.04	1.16
DABAR	7.71	0.05	1.30
HERO MOTO CORP	19.56	-0.06	2.89
M&M	14.96	-0.13	1.87
TCS	8.10	0.07	1.44
WIPRO	7.00	0.01	1.39
NTPC	30.63	0.02	1.56
TORRENT	26.72	0.06	1.74



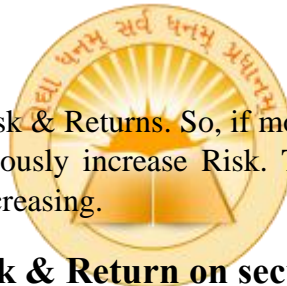
BOB	13.85	-0.05	2.49
SBI	25.35	0.07	2.18
AVENUE	4.72	0.08	2.05
FUTURE RETAIL	7.24	-0.14	1.67

DII's holding and Risk & Return correlation of security

	DII	RETURN	S.D.
DII	1		
RETURN	0.2267	1	
S.D.	0.6899	-0.0568	1

Interpretation:

DII have positive correlation with both Risk & Returns. So, if more DII enters into the market it would have positive impact on Return and simultaneously increase Risk. This shows that, as DII holdings increase, return on that particular security is also increasing.



1.4 General Public's holdings and Risk & Return on security

Company	General Public	Return	S.D.
RELIANCE	11.35	0.14	1.71
IOC	26.95	-0.01	2.07
TATA STEEL	22.08	0.00	2.40
JINDAL STEEL	12.17	0.08	3.61
HUL	13.82	0.04	1.16
DABAR	6.93	0.05	1.30
HERO MOTO CORP	10.52	-0.06	2.89



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M&M	9.00	-0.13	1.87
TCS	3.95	0.07	1.44
WIPRO	10.54	0.01	1.39
NTPC	2.47	0.02	1.56
TORRENT	16.08	0.06	1.74
BOB	9.72	-0.05	2.49
SBI	6.78	0.07	2.18
AVENUE	9.34	0.08	2.05
FUTURE RETAIL	27.14	-0.14	1.67

General Public's holdings and Risk & Return correlation of security

	General Public	Return	S.D.
General Public	1		
Return	-0.3685	1	
S.D.	0.1161	-0.0568	1

Interpretation:

More the proportion of General Public's holding in the company lesser would be the return and much higher risk in a security. As general public's holding and return have a negative correlation and it has positive correlation with risk. Which shows that as general public's holdings are increasing return on that particular is decreasing and risk goes up.



6.5 Ownership pattern and Risk & Return Correlation Matrix

Correlation Matrix				
	Return	Rank	SD(Risk)	Rank
Promoter	0.2377	1	-0.2894	1
FII	-0.0948	3	0.1378	3
DII	0.2267	2	0.6899	4
General Public	-0.3685	4	0.1161	2

Interpretation:

- From the above table of Ownership pattern and Risk & Return correlation matrix promoter gets the 1st rank in return & risk. As the promoter holdings increases in a security it would increase return and reduce the Risk.
- While DII gets the 2nd rank in terms of return & 4th rank in terms of risk which shows the Higher the return, Higher the risk
- Whereas FII gets the 3rd rank in terms of return & risk, which simply shows that FII's now a days are not willing to take more risk.
- General public holds the 4th position in terms of return and 2nd position in terms of risk, which means general public gets the least return on security and they have to bear high risk in the stock market.

Results & findings :

- Risk and Return changes as there are change in ownership pattern of particular security.
- Other investors (i.e. other than promoters) gets the dual advantages in form of Risk & Return, as the promoter holding increases in a security the return on that particular security increases and risk would decreases.
- More the proportion of General Public's holdings in the company lesser would be the return and higher



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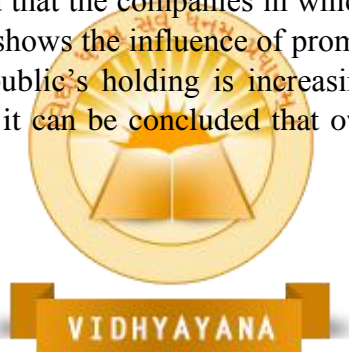
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would be the risk as compare to return.

- In FMCG & IT sectors volatility and risk is low as compare to other sectors.
- Promoter and DII have positive correlation with return, FII and general Public has negative correlation with return.
- Promoter have negative correlation of (-0.2894) with Risk, while General public has positive correlation of (0.1161) with Risk.

Conclusion :

From the research, it could be concluded that the companies in which promotor's holding is higher they get dual advantage of Risk & Return which shows the influence of promotor's holding on return and risk of that particular security. Where, as general public's holding is increasing, return on that particular security is decreasing and risk is increasing. Thus, it can be concluded that ownership pattern has direct impact on a stock price.



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