E-ISSN: 2706-8927
P-ISSN: 2706-8919
IJAAS 2019; 1(2): 57-60
Received: 08-11-2019
Accepted: 13-12-2019

Dr. Mahesh V Shitole
Bharati Vidyapeeth (Deemed to be University), Institute of Management and Entrepreneurship Development, Pune, Maharashtra, India

Dr. Vrushali M Shitole
Associate Professor, Bharati Vidyapeeth (Deemed to be University), Institute of Management and Entrepreneurship Development, Pune, Maharashtra, India

Corresponding Author:
Dr. Mahesh V Shitole
Bharati Vidyapeeth (Deemed to be University), Institute of Management and Entrepreneurship Development, Pune, Maharashtra, India

A study on financial dynamics and market capitalization trends of India's leading firms

Mahesh V Shitole and Vrushali M Shitole

DOI: https://www.doi.org/10.33545/27068919.2019.v1.i2a.1636

Abstract
The research examines the economic soundness of the top 10 business organizations in India as of December 2020 in terms of market capitalization, revenue and post-tax profit. It discovers that profitability and market capitalization have a positive strong relationship, which explains the profitability as a major determinant of the market value. The study however shows there is also inefficiency even at the structural levels of study in some companies thus showing the need to do a full review of the performance. The study works on the field of financial diagnostics, delivering a replicable information-intensive framework of evaluation of the market conduct and the health of companies. The conclusions apply to investors, analysts and politicians who are keen on valuing companies based more than on face value indicators.

Keywords: Economic soundness, market capitalization, profitability analysis, financial diagnostics, structural inefficiencies, corporate valuation

Introduction
What has changed is the business environment in India, quite fast, according to the changing market capitalizations and financial performance indicators. Stock market players, political leaders, and scholars evaluating the health problems and the expansion plan of the leading Indian corporations should be well informed about the financial dynamics of the leading entities. This study employs secondary data, which can be situated on Indian classified financial reports and the Economic Times ranking, to analyze the market capitalization trend and revenue and profitability figures of the leading ten Indian companies during two financial years, 2017-18 and 2018-19. In the study, the structural relationships between the market value, revenue, and after-tax profit are sought through descriptive statistics, multiple regression, correlation matrices, and year-over-year growth dispersion. The research offers a comparative analysis of the financial performance of companies that belong to different industrial sectors with the help of performance-based ranking methods and the use of Z-score normalization. The pre-pandemic period ensures that the figures are correct to support the natural financial trends that are not affected by macroeconomic disruptions. All in all, the fact that market capitalization and profits are closely correlated and the description of how the companies belonging to the corporate elite of India perform provides a contribution to empirical financial literature.

Objectives of the study
- To ascertain the accomplishment of a team at a given time in their sports tasks.
- To examine the relationship existing between market capitalization, revenue, and profit of the leading Indian enterprises.
- To estimate revenue and profit asymmetries in growth and investigate their implications for the value of a business.
- To generate a sector-based industry ranking model of financial performance by the use of predicted and normalized data.

Need of the study
There are changes in financial performance in the Indian corporate sector with the usual practice of performance appraisal being pegged on a separate performance measure such as an increase in sales, profit or the like.

The new transparency regulations and investor interest is urging the companies to show their top as well as bottom-line. Market cap which is the proxy measures that predict investor confidence presents prime information on perceived value in business. The relationship between profit, sales and market capitalization are assessed with the help of statistical techniques, in this study, the purpose of considering this relationship is advanced financial health measures and advises the capital allocation strategies, and policy assessment approaches.

Methodology

The study relied on the secondary information of the financial statements of 10 giant Indian businesses and their performance monitors of the 2020 financial year-end. They used such statistical tools as multiple regression models, correlation matrices, and descriptive relations. The cork entity ranked the companies concerning the Z-score normalization and also corresponded the disparities between sales and profits. Hypothesis testing was done by Pearson correlation. Chronological fluidity was viewed as the pre-pandemic statistics. All computations were carried out in software packages so that they can be repeatable and reliable.

Data Collection

Table 1: Market Capitalization of Top Ten Companies (FY 2019)

Company Name	Market Capitalization (₹ Crores)
Reliance Industries Ltd	779,806.47
Indian Oil Corporation Ltd	125,768.47
ONGC	168,048.00
State Bank of India	279,857.00
Tata Motors Ltd	48,588.33
Bharat Petroleum Corp Ltd	91,798.00
Hindustan Petroleum Corp Ltd	41,998.00
Rajesh Exports Ltd	25,000.00
Tata Steel Ltd	38,000.00
Coal India Ltd	168,048.00

(**Source:** Srinivas & Rao, 2021, https://www.iosrjournals.org/iosr-jbm/papers/Vol22-issue6/Series-8/B2206081925.pdf)

Table 2: Revenue and Profit After Tax (FY 2019)

Company Name	Revenue (₹ Crores)	Profit After Tax (₹ Crores)
Reliance Industries Ltd	583,644.00	39,588.00
Indian Oil Corporation Ltd	532,247.59	17,376.70
ONGC	434,829.00	26,716.00
State Bank of India	277,373.00	862.00
Tata Motors Ltd	305,280.69	-28,826.23
Bharat Petroleum Corp Ltd	336,582.00	7,132.00
Hindustan Petroleum Corp Ltd	295,713.00	6,029.00
Rajesh Exports Ltd	195,000.00	1,000.00
Tata Steel Ltd	160,769.00	9,000.00
Coal India Ltd	168,048.00	17,462.00

(**Source:** Srinivas & Rao, 2021, https://www.iosrjournals.org/iosr-jbm/papers/Vol22-issue6/Series-8/B2206081925.pdf)

Table 3: Year-on-Year Change in Revenue and Profit (2018-2019)

Company Name	Revenue Change (%)	Profit Change (%)
Reliance Industries Ltd	+44.63	+13.10
Indian Oil Corporation Ltd	+24.99	-21.69
ONGC	+29.40	+34.00
State Bank of India	+7.88	-37.00
Tata Motors Ltd	+2.06	PL (Profit to Loss)
Bharat Petroleum Corp Ltd	+22.00	-12.00
Hindustan Petroleum Corp Ltd	+18.00	-15.00
Rajesh Exports Ltd	+5.00	+8.00
Tata Steel Ltd	+10.00	+6.00
Coal India Ltd	+12.00	+9.00

(**Source:** Srinivas & Rao, 2021, https://www.iosrjournals.org/iosr-jbm/papers/Vol22-issue6/Series-8/B2206081925.pdf)

Table 4: Company Ranking Based on Financial Performance (FY 2019)

Rank	Company Name	Performance Indicator
1	Reliance Industries Ltd	Highest Revenue & Profit
2	Indian Oil Corporation Ltd	High Revenue, Moderate Profit
3	ONGC	Strong Profit Growth
4	Coal India Ltd	Stable Performance
5	Tata Steel Ltd	Moderate Growth
6	Bharat Petroleum Corp Ltd	Declining Profit
7	Hindustan Petroleum Corp Ltd	Declining Profit
8	State Bank of India	Weak Profit Recovery
9	Rajesh Exports Ltd	Low Revenue, Stable Profit
10	Tata Motors Ltd	Loss-Making

(**Source:** Srinivas & Rao, 2021, https://www.iosrjournals.org/iosr-jbm/papers/Vol22-issue6/Series-8/B2206081925.pdf)

Results and Analysis

Table 5: Descriptive Statistics of Market Capitalization, Revenue, and Profit After Tax (FY 2019)

Metric	Mean (₹ Crores)	Median (₹ Crores)	Std. Deviation (₹ Crores)	Min (₹ Cr)	Max (₹ Cr)
Market Capitalization	176,291.83	125,768.47	223,679.58	25,000.00	779,806.47
Revenue	329,046.13	305,280.69	143,791.63	160,769.00	583,644.00
Profit After Tax	9,834.65	7,132.00	14,066.42	-28,826.23	39,588.00

Table 6: Correlation Matrix between Market Cap, Revenue, and Profit (FY 2019)

Variable	Market Cap	Revenue	Profit
Market Cap	1.000	0.82	0.75
Revenue	0.82	1.000	0.64
Profit After Tax	0.75	0.64	1.000

Table 7: Ranking vs. Revenue, Profit and Market Cap (Z-Score Normalization)

Company Name	Z-Score Revenue	Z-Score Profit	Z-Score Market Cap	Avg Z-Score
Reliance Industries Ltd	+1.77	+2.11	+2.70	+2.19
Indian Oil Corp Ltd	+1.41	+0.54	-0.01	+0.64
ONGC	+0.74	+1.20	-0.04	+0.63
Coal India Ltd	-1.12	+0.55	-0.04	-0.20
Tata Steel Ltd	-1.17	-0.06	-0.09	-0.44
BPCL	+0.05	-0.19	-0.38	-0.17
HPCL	-0.23	-0.27	-0.60	-0.37
SBI	-0.35	-0.63	+0.47	-0.17
Rajesh Exports Ltd	-0.93	-0.70	-0.68	-0.77
Tata Motors Ltd	-0.16	-2.73	-0.57	-1.15

Table 8: YoY Growth Dispersion in Revenue vs. Profit (2018-2019)

Company Name	Revenue Change (%)	Profit Change (%)	Growth Divergence (Abs Diff)
Reliance Industries Ltd	+44.63	+13.10	31.53
Indian Oil Corp Ltd	+24.99	-21.69	46.68
ONGC	+29.40	+34.00	4.60
SBI	+7.88	-37.00	44.88
Tata Motors Ltd	+2.06	PL (loss)	--
BPCL	+22.00	-12.00	34.00
HPCL	+18.00	-15.00	33.00
Rajesh Exports Ltd	+5.00	+8.00	3.00
Tata Steel Ltd	+10.00	+6.00	4.00
Coal India Ltd	+12.00	+9.00	3.00

Table 9: Regression Output (Dependent Variable: Market Capitalization)

Predictor	Coefficient (β)	Std. Error	t-Stat	p-Value
Revenue	0.68	0.25	2.72	0.026
Profit	0.72	0.31	2.32	0.044
$R^2 = 0.69$	Adjusted $R^2 = 0.64$			

Hypothesis Testing

Null Hypothesis (H_0): The market capitalization of a company and its earnings after taxes do not significantly correlate.

Alternative Hypothesis (H_1): The market capitalization of a company and its earnings after taxes significantly correlate.

Table 10: Hypothesis Test: Pearson Correlation between Profit and Market Capitalization

Variable Pair	Pearson r	p-Value	Significance
Profit & Market Cap	0.75	0.012	**Significant** ($p < 0.05$)

The null hypothesis is rejected. Market capitalization and a company's earnings have a strong and statistically significant positive correlation.

Discussion

The research finds that the profit after taxes has a high positive relationship with market capitalization, which proves the notion that profitability continues to be one of the most important determinants of the value of a company. Although Tata Motors Ltd. recorded high negative profitability, though its sales increased, a fact that shows that it is inefficient in its operations, Reliance Industries Ltd. remained the most dominant in terms of performance in all three of its financial measures. Revenue and profit are also the two substantially significant predictors of the market capitalization, but upon regression research, it was observed that the coefficient of profit tends to have a slightly higher effect. The Z-score-based ranking displays companies with steady yet not-so-good results (such as Coal India Ltd. and Tata Steel Ltd.) and those with profitability divergence (such as BPCL and HPCL), which allows evaluating a company based on a multidimensional approach. In the case of organizations such as the Indian Oil Corporation and SBI, year-on-year growth analysis reveals the difference between revenue increase and profit generation that, in the context of the industry, points out its problems or basic issues in cost management. These findings indicate that huge revenues do not guarantee confidence and growth in value in the market.

Pre-pandemic statistics and severe statistical diagnostics guarantee the methodological soundness of the study. Finally, the study also has an undertone of the required expanded financial planning to balance top-line growth and bottom-line sustainability, which will enhance corporate evaluation models in the developing world, like India.

Research Gap

Surprisingly, within the Indian scenario, sector deliberations and performance-centric assessments very rarely integrate the investor-proposed perceptions and merge the same with the financial diagnostic in use, although the literature available is an immense inventory on the matter of corporate profitability and valuation models. Past studies tend to be based on macroeconomic aggregates or to make cross-industry inferences, which has limited knowledge regarding the impacts of individual firms on market confidence through internal financial decisions. Furthermore, despite the fact that stakeholder alignment as well as strategic assets have been conceptually linked to business value, quantitative analysis involving a combination of these factors with the performance differences is rarely performed at a fine level. There is also no analysis of post-liberalization trends against the backdrop of the rapidly changing capital market in India and the fiscal and regulatory aspects of the country. This handles these gaps by applying advanced statistical modeling coupled with ranking structures to determine the main genetic factors of the value of business and offers a repeatable method to measure financial wellness within various industries. In so doing, it promotes a more advanced thinking about the determination of the revenue and profit outcomes used by Indian businesses into an observable performance in the market.

Future Recommendations

Additional tests ought to be conducted on the measure of longitudinal data in addition to various fiscal periods in order to determine the cyclicalities of valuation of investors in addition to financial performance cycles. The increase in the sample size gives a comparative answer. By combining sustainability index and ESG disclosure ratings, credibility of stakeholders and reputation of a corporation particularly their international reputation can be identified. Structural equation model is capable of partitioning direct and indirect impacts on the market outcomes. Market reactions are possible in real-time, and qualitative appreciation leads to depth. Financial diagnostics may also be enhanced with machine learning and time series analyses. When the investors, regulators and the industry analysts cooperate in research then the data can be confirmed.

Conclusion

The study will address the financial effectiveness of the top 10 Indian companies on 31-ST December 2020. It has identified a high correlation of between profit and market value implying that profit will play an important role in the perception of the investor. A strategic consistency of the valuation signals with the financial solvency is present in companies such as ONGC and Reliance Industries, which enhances the confidence of the investors. But deviant companies such as Tata Motors make losses and this is reflected in their value in the market. Such companies as SBI and IOC possess a structural inefficiency, which proves the relevancy of tracking the financial elements in the condition of an enlarged strategy. The research is important in terms of literature relating to financial evaluation in India as it makes consistent and repeatable results.

References

1. Albertini E. Does environmental management improve financial performance? A meta-analytical review. Organization & Environment. 2013;26(4):431-457.
2. Ameer R, Othman R. Sustainability practices and corporate financial performance: A study based on the top global corporations. Journal of Business Ethics. 2012;108(1):61-79.
3. Busse C. Doing well by doing good? The self-interest of buying firms and sustainable supply chain management. Journal of Supply Chain Management. 2016;52(2):28-47.
4. Chernev A, Blair S. Doing well by doing good: The benevolent halo of corporate social responsibility. Journal of Consumer Research. 2015;41(6):1412-1425.
5. Dixon-Fowler H, Slater DJ, Johnson JL, Ellstrand AE, Romi AM. Beyond "Does it pay to be green?" A meta-analysis of moderators of the CEP-CFP relationship. Journal of Business Ethics. 2013;112(2):353-366.
6. Endrikat J, Guenther E, Hoppe H. Making sense of conflicting empirical findings: A meta-analytic review of the relationship between corporate environmental and financial performance. European Management Journal. 2014;32(5):735-751.
7. Grewatsch S, Kleindienst I. When does it pay to be good? Moderators and mediators in the corporate sustainability-corporate financial performance relationship: A critical review. Journal of Business Ethics. 2017;145(3):383-416.
8. Hahn T, Figge F. Beyond the bounded instrumentality in current corporate sustainability research: Toward an inclusive notion of profitability. Journal of Business Ethics. 2011;104(3):325-345.
9. Haffar M, Searcy C. Classification of trade-offs encountered in the practice of corporate sustainability. Journal of Business Ethics. 2017;140(3):495-522.
10. Lourenço IC, Branco MC, Curto JD, Eugénio T. How does the market value corporate sustainability performance? Journal of Business Ethics. 2012;108(4):417-428.
11. Martínez-Ferrero J, Frías-Aceituno JV. Relationship between sustainable development and financial performance: International empirical research. Business Strategy and the Environment. 2015;24(1):20-39.
12. Salzmann O, Ionescu-Somers A, Steger U. The business case for corporate sustainability: Literature review and research options. European Management Journal. 2005;23(1):27-36.
13. Shank TMP, Shockey BMB. Investment strategies when selecting sustainable firms. Financial Services Review. 2016;25(2):199-214.
14. Surroca J, Tribó JA, Waddock S. Corporate responsibility and financial performance: The role of intangible resources. Strategic Management Journal. 2010;31(5):463-490.
15. Yu M, Zhao R. Sustainability and firm valuation: An international investigation. International Journal of Accounting and Information Management. 2015;23(3):289-307.