**1.0 Introduction**

The stock market is an avenue for every investor in India. Therefore, investors want to forecast the market price in order to maximize their investment worth. The market prices of shares are not stagnant and they change every second. They are determined by the forces of demand and supply. The market price of the shares determines the investment decisions of any individuals.

A lot of debate is carried on as to what are the determinants of stock prices and also the level up to which these determinants influence the market price of share. In any securities market it is primary or secondary the price of shares is influenced by a number of factors.

Market price simply means that price at which trading of the share is taking place in the ongoing market.

Many approaches are there to predict the market prices of shares. In the fundamental approach the most popular parameters used are book value, P/E, EPS and DPS.

**Definitions:**

**Book value:**
It is basically the amount that a company would get if stop their business and sell off their assets.

Book value = Net Market sale value of company

Book value is the net of what the company owns and what it owes.

Therefore, Book Value = Equity share capital + Retained earnings

**Earnings per share:**
EPS is that part of profits which is allocated to each outstanding share.

Therefore, EPS = \( \frac{\text{Net income} - \text{dividend on preferred shares}}{\text{Outstanding shares}} \)

**Dividend per share:**
Dividend per share is the dividend that the investor receives on every share he holds. The amount of dividend paid to the shareholders depends on the dividend policy followed by the company.

Therefore, DPS = \( \frac{\text{Total dividend declared}}{\text{Total number of shares}} \)

**P/E ratio:**

P/E ratio is the ratio of the company's share market price to its earnings per share.

Therefore, P/E ratio = \( \frac{\text{Market price per share}}{\text{Earnings per share}} \)

In this paper our focus on all these parameters and also which parameter is the most effective for forecasting the market value of shares. All sectors have different correlation to these parameters.

**2.0 Literature review:**

Studies have been conducted in the Indian markets that have attempted to identify the factors that influence share market price. Many researchers have worked on this aspect of fundamental analysis so as to help in forecasting the stock prices.

In a study conducted by Shrivastav (1968) that has studies the effect of retained earnings on market prices. The study revealed that retained earnings had no significant effect on the share market prices of companies.

Zahir & Khanna (1980) studied that the share prices of private sector firms are highly influenced by dividend and yield.

Krishan (1984) through his studies in examining the engineering and cotton textiles industry found that the book value per share and dividend are influencing factors in forecasting the market price of shares.

Chawla & Srinivasan (1987) in studying the chemical industry found that dividend and retained earnings are significant factors in determining the market prices of shares.

Zahir (1992) studied that dividend and earnings influence the prices of fluctuating and less fluctuating shares.

Vaidyanathan and Goswami (1997) studied whether the P/E ratio is a good criterion for investment decisions. He concluded that on an average low P/E stocks provided larger returns than high P/E stocks. Therefore, P/E ratio may not be a suitable measure for investment decisions.

Malhotra and Prakash (2001) used correlation and regression analysis as tools to find the determinants of share prices of Group A and Group B shares during 1989-90 to 1998-99. Their study concluded that prices of Group B shares were significantly determined by book value, P/E ratio, and dividend per share and earnings per share. Similar was the case with Group A shares except for P/E ratio which was significant in only 4 out of 10 years.
Mehta & Turan (2005) studied the share prices of listed firms in BSE and concluded that market capitalization, market price to book value and P/E ratio influence the market prices of shares.

Azhagaiah & Priya (2008) examined the organic and inorganic chemical companies with respect to the effect of dividend on share prices. In conclusion, it was reported that dividend had an impact on the share prices of organic chemical companies and no impact on inorganic chemical companies.

Sanjeet Sharma (2011) examined the relationship between share prices and variables like book value, dividend per share, earnings per share & P/E ratio. He concluded that these factors possess strong explanatory power and therefore, can be used to make forecasts about share prices.

While stock return forecasting is fascinating, it can also be frustrating. Stock returns inherently contain a sizable unpredictable component, so that the best forecasting models can explain only a relatively small part of stock returns. Furthermore, competition among traders implies that once successful forecasting models are discovered, they will be readily adopted by others; the widespread adoption of successful forecasting models can then cause stock prices to move in a manner that eliminates the models’ forecasting ability (e.g., Lo, 2004; Timmermann and Granger, 2004). However, rational asset pricing theory posits that stock return predictability can result from exposure to time-varying aggregate risk, and to the extent that successful forecasting models consistently capture this time-varying aggregate risk premium, they will likely remain successful over time.

3.0 Research Methodology:
3.1 Data Collection:
The historic stock pricing data was collected from the official website of Bombay Stock Exchange & CNBC money control’s official portal, for the purpose of research monthly closing data has been used are been taken from money control’s official portal.

3.2 Sample Size:
The data 65 companies are collected, in which top 5 companies (by market capitalization) of each of the 13 sectorial indices are done.

3.3 Period of Analysis:
Period of analysis for data collected is 5 years i.e. from 31st March, 2009 to 31st March, 2013.

3.4 Tools Used for Study:
For analyzing the data following statistical tools are being used
Karl Pearson’s coefficient of correlation (r)

3.5 Objectives of Study:
- To analysis correlation between market price and Book value.
- To analysis correlation between market price and EPS
- To analysis correlation between market price and DPS
- To analysis correlation between market price and P/E
- To find out which tools of fundamental analysis has highest impact on the stock price of each sector.

3.6 Limitation of study:
The study is based on the data belonging to 2009-2012 period, while these companies are in existing for quite a long period as compared to time period of study.

To sort the top companies market capitalization has been used as the parameter, whereas there would other parameters as profit or revenue that can be use as a scale to classify the companies.

We have used selected performance variable from various categories, this leaves scope to try and tested other tools not tested by me.

4.0 Data Analysis & Interpretation:

| Rank | Industry | BV   | Industry | EPS  | Industry | DPS   | Industry | P/E   | Industry | AVG  |
|------|----------|------|----------|------|----------|-------|----------|-------|----------|------|
| 1    | FMCG     | 0.79 | FMCG     | 0.61 | FMCG     | 0.67  | Power    | 0.78  | FMCG     | 0.67 |
| 2    | Healthcare| 0.55 | Realty   | 0.55 | Consumer Durables | 0.55 | BANKEX   | 0.63  | Consumer Durables | 0.39 |
| 3    | IT       | 0.37 | Consumer Durables | 0.55 | Healthcare | 0.26 | OIL & GAS | 0.62 | Healthcare | 0.33 |
| 4    | Auto     | 0.35 | Capital goods | 0.48 | IT      | 0.22  | FMCG     | 0.60  | IT       | 0.32 |
| 5    | OIL & GAS| 0.34 | Healthcare | 0.43 | Auto    | 0.19  | IT       | 0.40  | OIL & GAS | 0.31 |
| 6    | Consumer Durables | 0.25 | IT      | 0.29 | Realty  | 0.17  | Metal    | 0.32  | BANKEX   | 0.23 |
| 7    | BANKEX   | 0.14 | Auto     | 0.17 | OIL & GAS | 0.14 | Capital goods | 0.27 | Realty   | 0.22 |
| 8    | Sugar Mfg| 0.07 | OIL & GAS | 0.16 | Telecom | 0.09  | Consumer Durables | 0.23 | Auto     | 0.20 |
| 9    | Realty   | -0.01| BANKEX   | 0.07 | BANKEX   | 0.08  | Telecom  | 0.15  | Capital goods | 0.10 |
| 10   | Metal    | -0.09| Metal    | 0.02 | Capital goods | -0.01| Realty   | 0.15  | Power    | 0.08 |
| 11   | Power    | -0.20| Telecom  | 0.01 | Metal    | -0.01| Auto     | 0.10  | Metal    | 0.06 |
| 12   | Telecom  | -0.21| Sugar Mfg | -0.07| Power    | -0.02| Sugar Mfg | 0.09  | Sugar Mfg | 0.01 |
| 13   | Capital goods | -0.34| Power   | -0.23| Sugar Mfg | -0.04| Healthcare | 0.09  | Telecom  | 0.01 |
| Average | 0.15  | 0.23 | 0.18     | 0.34 | 0.23     |
5.0 Interpretation:
As per general statistical theories a correlation value greater than or equal to +0.50 shows strong positive correlation. So the strong indicators that follow price for each sector are as tabulated below,

| Rank | BOOK VALUE | EPS    | DPS    | P/E    |
|------|------------|--------|--------|--------|
| 1    | FMCG       | FMCG   | FMCG   | POWER  |
| 2    | HEALTH-CARE| REALTY | CONSUMER DURABLES | BANKEX |
| 3    | CONSUMER DURABLES | OIL & GAS |        |        |
| 4    | FMCG       |        |        |        |

Table 02: Strength of indicators against the sector

6.0 Recommendation
On analyzing the correlation between all four variables and average correlation with price we can say that it's the market stock price of FMCG sector is the one that highly trails as per all above indicators of fundamental analysis. Fundamental analysis can be used for Consumer Durables sector as it too closely trails as per the indicators.

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