

Market Capitalization and Its Impact on Equity Valuation a Mixed Method Study of The Indian Capital Market

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Abstract

An investor must perform research on a stock before investing in it. It is critical for the intelligent investor. As a result, stock prices have long piqued the interest of investors. Researchers have worked hard to identify the elements that influence stock prices and so returns. In the current study, 300 companies listed on India's National Stock Exchange (NSE) were divided into three categories based on market capitalization. The study relied on both primary and secondary data to reach its findings. Logistic regression is used to examine secondary data in the form of historical financial information. The outcomes of secondary data analysis are then confirmed using primary data gathered through interviews with domain experts. The study also revealed the importance of the new variables PEG ratio and economic value added (EVA) in Indian scenario to predict the market price of large cap companies. The study's findings can help market participants such as fund managers, stocks analysts, portfolio managers, retail investors, and high-net-worth individuals. The findings of the study will also contribute to the current body of knowledge on equity valuation.

Keywords: Equity Price, Logistic Regression, PEG, EVA, India

JEL: C53, C55, G12, G17, O16,

1. Introduction

The extreme volatility and turbulence were produced in the stock market by the catastrophic events like global financial crisis (GFC 2008), outbreak of COVID 19, and Russia-Ukraine War which had an impact on the entire world economy. Prior to these events, the stock market was the primary focus of investment, with investors constantly monitoring rising and declining share prices as a means of generating healthy returns. The issuing of shares has also used as a means of funding by corporations for business requirements like expansion and diversification.

Investors are known to be risk averse, and since the volatility of their investments makes them quite nervous. Therefore, from the perspective of an investor, it is advised to have information and awareness about the factors that influence share price in order to make the best possible investment choice. Numerous internal and external elements have been identified by academics as influences on stock price. According to Sharif et al. (2015) the firm-specific or internal determinants include board makeup, company governance, and financial success. Sharma (2011) contends that there are two methods for forecasting share prices: the fundamental approach and the technical approach. The former makes share price predictions based on financial, environmental, and managerial variables, whereas the latter analyses past trends to make share price predictions in the future. Investors must therefore be knowledgeable about the many strategies and contributing elements that influence their choice of investments.

In the present study, the larger set of data, separated into three categories depending on market capitalisation, was analysed. 100 large, small, and midsize companies from each category listed on the India's National Stock Exchange (NSE) make up the study sample. The study found that three sets of data forecasting the market price of the equity shared a few similar as well as unique features. The significance of the new variables PEG ratio and economic value added (EVA) in predicting the market price of large cap businesses was also uncovered by the study.

In earlier research (Balkrishnan 1984, Sharma 2011, Singh 2013, Sukhija 2014, Velankar et al. 2017, Nautiyal and Kavidayal 2018, Alom and Choudhury 2022) the statistical findings of the data analysis were often presented to conclude findings of the study. The present study extends the data analysis by incorporating qualitative data in the form of semi-structured open-ended survey and expert interviews to validate the findings of statistical analysis.

Market participants including fund managers, equities analysts, portfolio managers, retail- investors, and high-net-worth people can benefit from the study's conclusions. Investors are wary about the market's volatility and the security of their

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investments as the broad Indian market indices NIFTY and Sensex linger close to all-time high levels, equity market investors may find the study's findings helpful in making sane investment decisions. The study's findings will also add to the existing body of knowledge regarding stock valuation.

Six sections make up the remainder of the paper. A survey of the literature is covered in Section two to determine the research gap that is described in Section 3. The research methodology is covered in Section 4, and the results of the data analysis are covered in Section 5. The study's results and their consequences are discussed in section six. Conclusions, limitations, and the future scope of the research are presented in Section 7.

2. Literature Review

The keywords were chosen as the initial step of the literature review. Financial indicators and their impact on share prices are the main areas of interest, hence the terms "financial indicators" and "share price" have been found and searched for in titles, abstracts, and keywords. Added with a "OR" relationship to "share price" is a new keyword called "stock price," which is frequently used with the same meaning. Web of Science, Google Scholar and Scopus articles have been cited as primary sources. To identify the research gap, the literature about India was preferred.

Theoretically, according to Damodaran (2012) there are numerous valuation models that fall into three groups. Discounted cash flow valuation falls under the first type. In this case, the needed rate of return, or discount rate, is used to determine the present value of anticipated future cash flows. The second category is a relative valuation based on comparable asset sales, cash flow, book value, or earnings. The present value of the underlying asset is calculated using option pricing in the third category, which discusses contingent claim valuation. These three models, though, are predicated on a few suppositions. The analyst has different opinions on the discount rate, just like in discounted cash flow models. As every investor has a different risk tolerance, it is challenging to identify a discount rate that is widely accepted. Another difficulty when utilising discounted cash flow models for equity valuation is predicting future cash inflows in the form of dividends. The lack of comparable assets is the limiting element in the comparable approach paradigm. There are occasions when non-fundamental factors or transient market conditions have an impact on the comparable variables. The third sort of valuation model, the option pricing model, is predicated on a number of hypotheses, and the results of these valuation models depend on the user's input data. Also, if the underlying asset is not traded in the derivative section, this approach is unusable.

The theoretical framework can be improved upon and its empirical validity can be tested on a regular basis (Lo & Lys 2000). Investment managers can more accurately assess stock value by using news sources, data sources, new techniques, or emerging technologies (Fabozzi et al., 2017). Lam (2002); Smith, Jefferis, and Ryoo (2002); Kim and Pyun (2007); In and Kim (2006); Kheradyar, Ibrahim, and Nor (2011); Khan et al., (2012); Trejo-Pech, White, and Noguera (2015); Nautiyal and Kavidayal (2018); Kevin (2022) state the fact that stock return is found to be significantly associated with the financial ratios and found sufficient evidence to conclude that company specific financial factors play important roles in forecasting equity market prices. One of the pioneering research in the area of equity price determinants influencing share prices in the US market was done by the Collins (1957). He identified dividend, net profit, operating earnings, and book value as the key influences on share prices there. Since then, a sizable amount of theoretical and empirical literature that examines the factors that influence the market price of shares has developed.

Zahir and Khanna (1982), first study in Indian context used multiple regression to forecast the equity price using data from two years, i.e., 1976–1978. The share price was found to be significantly influenced by the dividend per share, book value, and yield, but very weakly by earnings per share. Balakrishnan (1984) carried out a sector-specific analysis on India's engineering and cotton textile industries. He found that book value and dividends per share were important drivers in both industries, although yield was only an important factor in the cotton textile industry. In his analysis of 327 Indian enterprises, Srivastava (1984) found that the dividend rate was important.

Based on a sample of the BSE index and data for the years 1988 to 2000, Sen and Ray (2003) investigated the major factors influencing stock price in India. According to the empirical study, dividend payments have a significant impact on stock prices. They also discovered that earnings per share had relatively low effect on stock prices. The study concluded dividend payout ratios as one important element that affects the price of Indian stocks.

According to Sharma and Singh (2006) who used data from 160 Indian companies between 2001 and 2005, earnings per share, price-earnings ratio, dividend per share, dividend coverage, dividend payout, book value per share, and company size are the factors that affect share prices. They emphasised that enterprises should have a generous payout policy to appeal

to both the primary and secondary markets because dividend per share is the most significant element impacting the market price of a share.

Das and Pattanayak (2009) looked at the 30 equities that make up the Bombay Stock Exchange Sensitivity Index. The investigation showed that while more risk and volatility have adverse effects on share prices, stronger earnings, return on investment, growth potential, and favourable valuation have positive effects.

In the context of India, Sehgal and Pandey (2010) assessed price multiples for equity valuation reasons. The study period covered the years 1990–2007, and data were collected from 145 companies across 13 sectors. It was discovered that historical price to earnings performs better when used to value equities, and they recommended that historical price to earnings (P/E) be used to create price estimates in the Indian market.

According to Sharma (2011) studying financial variables is advantageous for Indian investors since they have a high explanatory power and can be used to predict stock prices accurately in the future. Investors are advised to consider the company's accounting factors before investing. In order to research the variables influencing stock price changes. Nirmala et al. (2011) analysed three industries—auto, healthcare, and public sector undertakings over the period 2000–2009 using panel data in order to determine the primary variables influencing share prices in India. The study used the completely modified ordinary least squares approach, and the findings showed that leverage, price-earnings ratio, and dividend are the three main factors affecting share prices across all the sectors taken into account.

According to Srinivasan (2012) the dividend per share has a negative and considerable effect on the share price of the industrial, pharmaceutical, energy, and infrastructure sectors. Additionally, he reaffirmed that price-earnings ratio and earnings per share are important factors in determining share prices in the manufacturing, pharmaceutical, energy, infrastructure, and commercial banking sectors. The results show that, with the exception of manufacturing, size is a key determinant in affecting the share prices of all industries under examination. Moreover, the study found that the book value per share has a favourable impact on the share prices of the infrastructure, IT & ITES, energy, and pharmaceutical industries. He came to the conclusion that the performance of the industry's basic ratios will be crucial and extremely beneficial to analysts and investors in determining the best companies that are a part of various industry groups.

Upadhyay et al. (2012) attempted to forecast the stock that will outperform the market. The stock market performance based on the stock return compared to market return was determined using financial ratios as selection criterion. 30 large market capitalization companies were used to test the model over a four-year period. High predicted accuracy rates of 56.8% were found in the categorization results. The author comes to the conclusion that the proposed model can improve an investor's capacity for stock price forecasting.

Tandon and Malhotra (2013) have presented a study as an effort to identify the variables that affect stock prices in the context of companies listed on National Stock Exchange (NSE). A sample of 95 companies was chosen for the 2007–12 period, and the results of a linear regression model show that while dividend yield has a significant inverse relationship with the market price of the firm's stock, book value, earnings per share, and price–earnings ratio have a significant positive relationship with the firm's stock price.

The combined impact of important determinants on the equity share prices of Indian companies that are listed on the BSE 200 was discovered by Sukhija (2014). She found that out of the earnings per share has emerged as a significant driver with a positive sign, but dividend per share has a large negative sign. She further found that book value per share and price to earnings ratio has had a major impact on market share prices.

Velankar et al. (2017) attempted to analyze the impact of two specific internal factors earnings per share (EPS) and dividend per share (DPS) on stock price of selected public sector banks of India for the time period of 2006-07 to 2014-15. The study has disclosed that 83.43% variation in stock price is being explained by the independent variables EPS and DPS.

Alom and Choudhury (2022) analysed twenty-five Nifty representative stocks from the National Stock Exchange of India to identify the factors influencing their share prices. According to their research, factors like Earnings per Share, Price to Earnings Ratio, Price to Book Ratio, Return on Net Worth, Dividend Per Share, Price to Net Profit Ratio, Profit Before Dividend, Interest and Tax, and Gross Domestic Product account for 58% of the fluctuations in share prices in India.

3. Research Gap

After through literature review, the research gap is identified as follows:

- I. The literature review suggests that there is a relationship between share price and financial indicators; however, the review encourages further research into this relationship for different sample sizes in various markets separately because it tends to vary for different markets and research periods.
- II. Similar studies have been done in the past with a smaller sample size and a focus on a one set of companies only. Singh (2013) bifurcated manufacturing sector into three categories i.e, large, small, and medium size firms. The results are varying across the three groups. The study conducted by Singh (2013) enhanced the understanding of not only for manufacturing sector but also for each cluster (large, small, and medium size firms) formed on the basis of their asset size. Similar study is proposed here by bifurcating 300 companies into large, small and mid-cap stocks. It is proposed to use the pre-defined classification available in the PROWESS database, maintained by Center for Monitoring Indian Economy (CMIE). This is the first attempt to employ three sets of samples—large, small, and mid-cap companies—in a single study, at least in the context of India. The wider sample of large, small, and midcap companies may reveal both common and distinctive characteristics influencing market pricing.
- III. Most of the studies conclude with statistical findings. The present study will test the validity of regression findings using a semi-structured questionnaire survey and expert interview for further understanding of statistical findings.
- IV. For the first time, economic value added (EVA) is as an independent variable by Nautiyal and Kavidayal (2018). In the Indian context, PEG has not yet been employed as an independent variable. To evaluate EVA and PEG as a new driver of the market price of equity in India, continuous research is required.

4. Research methodology

In order to estimate the relationship between financial variable and market price of equity, this section discusses data sources, research variables, and the development of an empirical model.

4.1 Sample selection and data collection

With 2130 listed and actively traded businesses, the National Stock Exchange of India (NSE) is the largest stock exchange in India. Based on their market capitalization, we have chosen three groups of companies that are divided into large cap, small cap, and mid-size categories. The Securities and Exchange Board of India (SEBI), which oversees the Indian capital market, has established standards for dividing businesses into large, small, and mid-cap categories. A total of 300 companies make up the sample size, with 100 companies in each section. The literature review helps to identify the research variables. The PROWESS database is used to gather the historical annual values of the research variables pertaining to research period 10 years starting from March 2014 to March 2023. After initial data collection, the final sample size was somewhat lowered due to the lack of availability of historical data. The final sample size is depicted in the Table 1.

Insert Table 1 Here

McConnell et al. (1986) have demonstrated that qualitative data can offer further details to more precisely predict stock price movement. As a result, the primary information gathered through questionnaires, and interviews of the investors having sufficient experience of stock market investment. Out of total 10, six interviews are conducted fact to face and remaining four are conducted in online mode. The opinion of the respondent are presented using graph.

4.2 Methods of Data Analysis

Two stages are involved in the data analysis. In the first stage, secondary data is employed to model relationships between variables and make predictions based on the models. Regression analysis is widely used to examine the correlation between financial indicators and share prices, as can be observed (Pešík and Procházková 2022). When this relationship is taken to be linear, either simple linear regression or multiple linear regression is applicable (Davis 2005). However, if the relationship between the variables is not linear in the parameters, a number of non-linear techniques could be applied to produce a more accurate regression. In situations when the response variable can only accept binary values (yes or no), logistic regression is chosen. The result of logistic regression is a function that illustrates how the relationship between the predictors and the likelihood of the event (yes or no) changes (Tabachnick & Fidell, 2001).

Upadhyay et al. (2012) proposed a Multinomial Logistic Regression (MLR) model to forecast the stock that will outperform the market. In the present study, as the sample companies are classified into two categories, 1 for positive return and 0 (Zero) for negative returns, author have used Logistic regression over liner regression due to the fact that linear regression is to find the best-fitted line while logistic regression is one step ahead and fitting the line values to the sigmoid curve. The final findings of the paper are presented as combination of statistical analysis and respondent's opinion.

4.3 Model specification

I. Dependent variable

The dependent variable employed in this study is stock yield. As the data analysis is proposed the use of logistic regression, the sample companies of each set (large, small and mid-cap) are divided into two categories with code 1 and 0 (zero). The code 1 is used for positive yield and 0 (zero) for negative yield of the sample companies.

II. Independent variables

The following variables are considered as independent variables based on prior research and the availability of historical financial information for the sample companies. The sample companies, which include large cap, small cap, and mid-size corporations, all use the same 8 independent variables. Below is a brief description of each variable:

a) Economic Value Added

Over the past fifty years, the creation of shareholder value has evolved into a fundamental tenet of corporate governance (Lazonick & O'sullivan 2000). By effectively allocating resources, managers must maximise the value of their company and so raise shareholder wealth (Worthington & West 2001). Numerous indicators are used to operationalize this goal. In order to evaluate the company and forecast future performance, shareholders, management, and other interested parties pay close attention to these. One of these indications is EVA. When compared to traditional accounting performance measures like earnings, EPS, ROI, or ROE, EVA, according to its proponents, is a superior performance measurement (Stewart 1991; Tully 1993; Stern et al., 1995; Ehrbar, 1998). In support of the supremacy of EVA as one of the market price factors, numerous other academics have produced studies, including Milunovich and Tseui (1996) and Omar et al. (2017). When Lehn and Makhija (1996) looked at EVA, they discovered that it had a positive association with stock returns and that this correlation was marginally higher than those of more conventional performance indicators like ROA, ROE, and ROS. Although EVA is a pricing factor, its applicability in the Indian context has not yet been examined. EVA has been chosen as one of the independent variables as a result.

b) PE and PEG ratio

Price-to-Earnings (PE) ratio illustrates the correlation between a company's share price and its earnings per share. It shows how much the price of each share covers the earnings of each share. An investor can create a rough assessment of the amount of time needed to recoup his investment in a company's stock using the ratio. Stocks with low PE ratios are, by definition, selling at a discount to competing equities in the stock market in terms of earnings per share. According to the discounted cash flow model, companies with better growth prospects and lower necessary rates of return should have their stock trade at higher earnings multiples than stocks with the opposite trait. Therefore, comparing PE ratios with different benchmarks has become a popular tool for investors who prefer a value investing approach. Investors have standardised the PE ratio by the business growth rate, giving rise to a metric known as the PEG ratio. PEG ratio is originally developed by Mario Farina who wrote about it in his 1969 Book, A beginner's guide to successful investing in the stock market. On many financial records, this ratio is now routinely reported together with the PE and other pertinent firm statistics. The PEG ratio is regarded as the most important indicator for the popular investment strategy known as growth at a reasonable price (GARP). According to Schatzberg and Vora (2009), using PEG to make investment decisions is still a beneficial practice. In the absence of enough supporting literature in Indian context, the author have taken the opinion of experts through interviews. Based on their suggestion and few literature evidences from outside India, PEG is used as one of the price determinants.

c) Book Value

Net asset value per share is another name for it. It quantifies the assets that the corporation possesses in relation to each equity share. A high book value typically denotes a strong track record of performance for the company. However in the

event of bonus shares, share repurchases, etc., the book value can be changed through a book entry. Sharma (2011), Srinivasan (2012) used and found book value as significant factor influencing market price.

d) Debt to equity ratio

The debt-to-equity ratio offers broad insight on the company's risk and financial viability. It varies from company to company depending on the nature of the business and the availability of capital. Typically, businesses with stable cash flow have a larger ratio than those with less reliable cash flow (Hapsoro & Husain, 2019). Increase in debt is associated with increase in the risk of insolvency of business. Therefore, the required rate of return for shareholder increases and market price decreases. Therefore debt-to-equity ratio is considered as price predictor variable to see its impact on sample companies.

e) Return on Capital Employed (ROCE)

Return on capital employed can be particularly helpful when assessing a company's success. Investors tend to prefer businesses with rising and consistent ROCE levels over those with declining or volatile ROCE. Among other performance evaluation measures such as Return on Equity (ROE) and Return on Assets (ROA), ROCE is more useful if shareholders look at the business as a whole. Following to Wild and Subramanyam (2009); Jermisittiparsert et al. (2019) the author have used ROCE as stock price predictor.

f) Size

The division of sample companies based on size is the central idea of the present work. A key factor in an investment criterion is the firm's size. Larger companies typically provide investors with stronger investment prospects than smaller ones. Large companies' shares are actively traded, giving investors additional liquidity and marketability. As a result, the desire to purchase shares of large corporations drives up their share market price. There are several ways to express a company's size, including total assets, net sales, market capitalization, etc. In comparison to total assets, sales and market capitalization are more variable. As a result, author have selected total assets as a proxy for the firm's size.

g) Dividend Rate

After paying dividends to the preference shareholder, the corporation's net earnings are only available to the equity owners. The importance of this ratio stems from the fact that the potential for a greater dividend rate increases with larger earnings per share. If announced, the dividend will raise the market price. If not announced, it will raise book value per share since retained earnings will rise. Investor sentiments are also attached with the dividend policy of the company. To uncover the potential impact of dividend rate on market price, its inclusion in the set of independent variable is justified.

5. Empirical Findings

The findings of data analysis are presented in two stages. Initially, statistical findings in terms of regression outcome are reported. In the second stage, the findings of the analysis of the primary data are discussed. The outcome of logistic regression for each category (large, small and mid-cap) is reported in Table 2.

Insert Table 2 here

Large Cap Stocks

The result of the chi-square value from the Omnibus Test of Model Coefficients shows that the overall indication of the goodness-of-fit test is highly significant at $X^2(8, n = 880) = 215.179, p < 0.05$. This means that the model is able to distinguish between the positive and negative performance of large cap stocks. The set of independent variables explained close to 44% (Nagelkerke R^2) of the variance in the large cap stocks and the model, as a whole, correctly classified 83.60% of the cases into two groups: positive (96.20%) and negative (39.60%). In addition, the results from the Hosmer and Lemeshow's test also support our model as being worthwhile as the chi-square value for the test is 2.726 with a significance level of 0.950. As the value is larger than 0.05, it indicates support for the model.

Mid-Cap Stocks

The result of the chi-square value from the Omnibus Test of Model Coefficients shows that the overall indication of the goodness-of-fit test is highly significant at $X^2(8, n = 860) = 263.110, p < 0.05$. This means that the model is able to distinguish between the positive and negative performance of mid cap stocks. The set of independent variables explained close to 53.8% (Nagelkerke R^2) of the variance in the mid cap stocks and the model, as a whole, correctly classified 80.30% of the cases into two groups: positive (94.20%) and negative (22.90%). In addition, the results from the Hosmer and Lemeshow's test also support our model as being worthwhile as the chi-square value for the test is 2.756 with a significance level of 0.830. As the value is larger than 0.05, it indicates support for the model.

Small Cap Stocks

The result of the chi-square value from the Omnibus Test of Model Coefficients shows that the overall indication of the goodness-of-fit test is highly significant at $X^2(8, n = 850) = 271.215, p < 0.05$. This means that the model is able to distinguish between the positive and negative performance of small cap stocks. The set of independent variables explained close to 47.9% (Nagelkerke R^2) of the variance in the small cap stocks and the model, as a whole, correctly classified 82.40% of the cases into two groups: positive (95.60%) and negative (36.10%). In addition, the results from the Hosmer and Lemeshow's test also support our model as being worthwhile as the chi-square value for the test is 2.88 with a significance level of 0.266. As the value is larger than 0.05, it indicates support for the model.

6. Discussion

Regarding EVA, the present study found that businesses that generate EVA for their shareholders command positive returns from their investors. The coefficient value is higher in large cap companies compared to small and mid-cap companies. May be the large cap companies have less volatile business operations as compared to other two (small and mid-cap) companies, investor expecting more value addition from large cap companies. In the opinion experts, the use of weighted average cost of capital in calculation EVA makes it more superior performance measure than ROE, ROA, and ROCE. Experts encourage investors to consider capital structure and profitability when estimating the value of EVA because EVA is a function of cost of capital and net profit. The results are consistent with those of EVA proponents who frequently assert that it is closely associated with the generation of shareholder value and that it makes managers accountable for producing respectable returns on an organization's capital. Companies and boards may also wish to review their value creation philosophy and make sure they are utilising the appropriate blend of value drivers in light of the potential resurgence in interest in EVA. If the assigned return is more than the investment's cost of capital, value will be created (Fackler & Wimschulte 2009). In the present study, the statistical significance of the PEG ratio in the large and midcap group of companies is proof that investors value these companies more for their potential for future growth than for their current financial standing. In the view of Easton (2004) and Estrada (2005) PEG ratio is superior over PE ratio in ranking the stock. I'Ons and Ward (2012) observed consistent out performance of stocks selected for investment based on PEG. Large corporations typically expand or diversify their businesses as a means of growth. The study's conclusions have sent the necessary message to the management of large and mid-size corporations to focus on growth to maintain the market price their stock. However according to Trombley (2008), who advises against using it as a tool to choose between different sorts of firms, PEG should only be used for within-industry screening when companies are anticipated to have comparable cost of capital and growth prospects. The present study concludes that since the growth rate of businesses depends on the status of the economy, the function of the economy is critical when utilising PEG as a pricing determinant. The expert opined that absence of well-defined mechanism to calculate growth rate may be hindrance in using PEG as price determinants by the investors.

In small and midsize businesses, a high debt-to-equity coefficient denotes a high level of risk. The higher value of debt-to-equity ratio indicates that the company is borrowing money from outside financier rather than equity to finance its expansion. The relatively low and positive coefficient in large cap companies shows the investor's faith in steady cash flow to pay off the debt. The study recommends the use of the average of the previous few years to see the impact on stock price as a sudden increase could indicate that the company is actively using debt to support its growth strategy. In case of small and mid-cap sample firms, the study found negative correlation between leverage and market price. The business operations of small and mid-cap companies are at lesser scale. A minor downside variation in the cash inflows and profitability increases the risk of insolvency due to increased debt in the capital structure. The negative coefficient in mid and small cap companies signals that investor do not weigh these companies for their fixed financial obligations. Including the present study, leverage was significant determinants of share prices for as observed by Nirmala et al., (2011); Pandya and Marvadi (2016) in their respective studies.

Following to Sharma (2011), Nirmala et al., (2011), Alom and Choudhury (2022), the study found that dividend rate is significant and positively affecting market price in small and mid-cap segment and negatively affecting in case of large cap companies. To reach a more logical conclusion, the experts and authors further discussed the contradicting findings within the sample. The three experts agree that rising market prices result in capital gains but lower dividend yields. A further non-payment of dividend could arise from reinvesting profits into the company to fuel growth. The recent changes in India to tax dividends in the hands of shareholder have reflected in the findings of the study. According to Saravanakumar (2011), dividends can have a short-term impact on the market price i.e before or after declaration of dividend, but not a long-term one. The current study propose to conclude that investor attitudes towards equity investments have shifted from dividend income to capital appreciation. Additionally, author agree with Pinto and Rastogi (2019) that different sectors in India have distinct dividend policies.

Srinivasan (2012), Velankar et al., (2017) and present study found size as statistically significant determinant of market price of equity. The coefficient of regression in large small and mid-cap stock is negligible. However, the definition of size is different in each study. The use of total asset as proxy to size may be rejected by the present study. The findings suggest that investors and researcher should look for other measures such as total sales or market capitalization to represent the size of the company.

Return on Capital Employed (ROCE) is found as one of the significant factor predicting market price of equity in all the three (large, small and mid-cap) segments author have analysed. The small cap segment's coefficient value is highest. It can be inferred that small cap companies are thought to be riskier than large cap companies. Investors in risky companies therefore anticipate better results than those in other stable companies on the market. Author draw the conclusion that market price of large cap firms is driven by growth and that of small & mid-cap is based on the stability of earnings based on the dissimilar outcomes of PEG and ROCE as independent variable across three sectors.

The findings of the present study in relation to price-to-earnings ratio (PE ratio) are in line with Nirmala et al., (2011); Pandya and Marvadi (2016); Alom and Choudhury (2022). The empirical findings were further supported by experts who weighted as most important factor to predict the market price of equity. However, in the opinion the experts to whom author interviewed, mentioned that growth in earning and sales, operating profit margin, return on capital employed and return on equity, macroeconomic situation, and brand value are the factors that drive PE value. The present study propose that investors who are using PE as the price determinants may look into the aforementioned factors too to take better informed investment decisions.

Zahir and Khanna (1982), Balkrishan (1984), Sharma (2011), Tandon and Malhotra (2013) observed significant relation between book value and market price. The present study found book value as statistically insignificant. The book value indicates the minimum value of a company's equity available to the shareholder. The fact that book value can be altered by mere book entry such as share repurchase, issue of bonus, and splitting or consolidating face value of share. These decisions are at the discretion of the managements. The aim of the current study is to draw the conclusion that investors do not support management's discretionary decisions that determine market share price.

The present study is unique due to the usage of secondary and primary data in the data analysis. The abovementioned statistical findings were discussed with the expert to know their opinion before reaching to the final conclusion. The expert's opinion on the observed variable is depicted in Figure 1

Insert Figure 1 Here

Apart from the observed variables, experts opined that company's board structure, transparency in governance, brand value, policy initiative by the government to boost the economy and domestic as well as global macroeconomic variables also plays a key role in the market price of equity. One expert have suggested behavioral aspects of the investor i.e too much optimistic or pessimistic irrespective of financial soundness of company, also decide the market price of equity.

7. Conclusion, Limitations and Future Scope

The present study has established that companies trading on the NSE are not valued similarly regardless of their market capitalisation. Financial indicators do have an impact on the company's valuation, but their impact should be evaluated separately depending on whether they belong to the large, small, or mid-cap segments. With the same financial indicator values, a large cap firm would be valued greater on the market than a small or mid-size corporation.

Dividends, earnings per share, price-to-earnings ratio, leverage, and company size all have significant roles in determining share prices, according to a broad overview of earlier studies on the topic outlined above. This implies that investors regard dividend-paying companies more highly because they prefer a stable payout policy. Additionally, shares with greater price-to-earnings ratios are a sign that investors believe these companies will have a bright future. Another crucial factor influencing share prices is leverage, and this shows that investors place higher value on companies that use less debt because more debt reduces stakeholders' profits. Stakeholders favour businesses with high earnings per share because it guarantees a higher return on their shares. Return on capital employed is also thought to have a significant position because it guarantees stakeholders that they will receive a return on their investment.

The study does have certain limitations, though. The study's findings depend on how reliable the secondary data are that were utilized to support them. Secondly, not all of the variables that affect sample company performance are taken into account in this research, primarily due to their unavailability in the database. However, it can be anticipated that initiatives like this study will increase discussion of the subject and provide justification for more investigation in this field, particularly in the context of India. Determining a relationship between the companies in each group from both financial and non-financial viewpoints could be the focus of further research. Another option may be to investigate a longer time series to see if investor sentiment towards different sectors altered over time.

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Tables and Figures

Table 1: Sample Distribution

	Large cap	Mid Cap	Small Cap
Total number of Companies	100	100	100
Less: Non-availability of data	12	14	15
Final Sample Size	88	86	85

Source: Author's computation

Table 2: Outcome of Regression Analysis

Variables	Large Cap						Mid Cap						Small Cap					
	B	S.E.	Wald	df	Sig.	Exp(B)	B	S.E.	Wald	df	Sig.	Exp(B)	B	S.E.	Wald	df	Sig.	Exp(B)
Economic Value Added (EVA)	0.078	0.028	7.496	1.000	0.006	1.081	0.058	0.050	1.349	1.000	0.000	1.059	0.000	0.000	4.392	1.000	0.036	1.000
PE-to-Growth Ratio (PEG)	0.172	0.033	27.283	1.000	0.000	1.188	0.083	0.108	22.890	1.000	0.000	1.087	0.052	0.056	0.865	1.000	0.352	1.053
Book Value (BV)	0.002	0.001	1.812	1.000	0.178	1.002	0.005	0.004	1.773	1.000	0.183	1.005	-0.042	0.025	2.883	1.000	0.090	0.959
Debt-to-Equity (DE)	0.020	0.011	3.014	1.000	0.083	1.020	-0.011	0.002	22.170	1.000	0.000	0.989	-0.048	0.012	16.542	1.000	0.000	0.953
Price-to-Earnings (PE)	0.176	0.033	28.777	1.000	0.000	1.193	0.046	0.018	6.632	1.000	0.010	1.047	0.084	0.284	0.087	1.000	0.000	1.087
Return on Capital Employed (ROCE)	0.048	0.012	16.542	1.000	0.000	1.049	0.055	0.008	46.929	1.000	0.000	1.056	2.690	1.180	5.219	1.000	0.022	14.811
Size (S)	0.082	0.027	9.476	1.000	0.002	1.085	0.000	0.000	6.547	1.000	0.011	1.000	0.000	0.000	5.765	1.000	0.016	1.000
Dividend Rate (DR)	-0.013	0.002	30.016	1.000	0.000	0.988	0.008	0.002	23.213	1.000	0.000	1.008	0.147	0.292	0.255	1.000	0.000	1.159
Constant	1.069	0.323	10.945	1.000	0.001	2.913	0.897	0.351	6.545	1.000	0.011	2.453	4.299	1.542	7.779	1.000	0.005	73.654
Nagelkerke R Square	0.435						0.538						0.479					
n	880						860						850					
Classification Rate	83.60						80.30						82.40					
Positive Returns	96.20						94.20						95.60					
Negative Returns	39.60						22.90						36.10					
Hosmer and Lemeshow Test	0.630						0.830						0.266					
Omnibus Tests of Model Coefficients	0.000						0.000						0.000					

Source: Outcome of Data Analysis

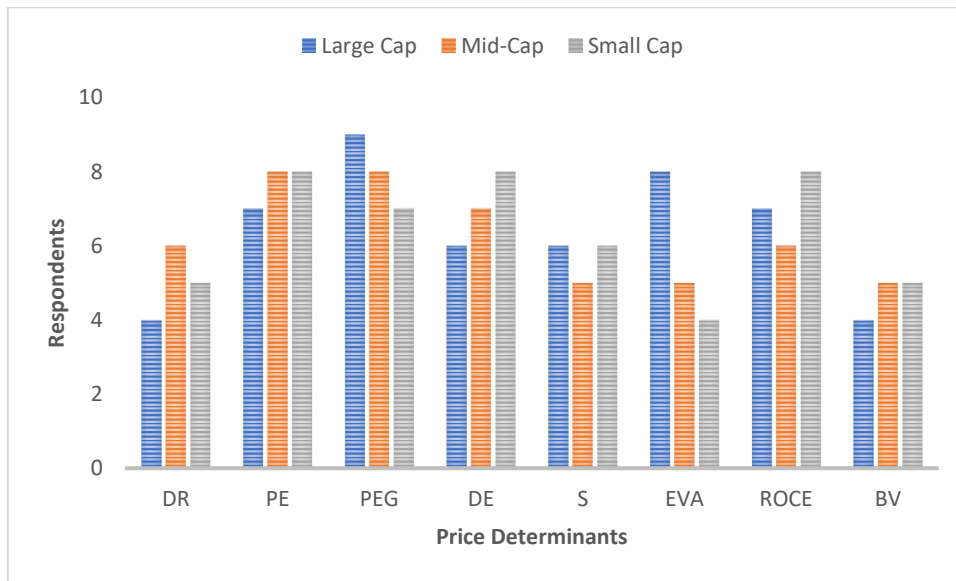


Figure 1: Experts Opinion

Source: Author's compilation