



IMPACT OF CASH FLOW FROM OPERATING AND FINANCIAL ACTIVITIES INFORMATION ON SHARE PRICE: EMPIRICAL EVIDENCE FROM NIFTY PHARMA INDEX COMPANIES, INDIA

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ABSTRACT

The present paper is an endeavour to know if there is any significant relationship between the operating activities and financing activities information derived from the cash flow statement (CFS) and market price per share (MPPS) or stock prices, focusing on Nifty Pharma Index companies listed on National Stock Exchange (NSE) India, for the period 2010 to 2016. The data has been collected from the Prowess Database of CMIE and is statistically analysed using the software e-views (Version 9.5). The statistical analyses concluded that the cash flow from operating activities has a positive and significant relationship between market price per share of Nifty Pharma Index companies.

Keywords: Cash Flow Statement, Operating Activities, Financial Activities and Market Price per Share.

INTRODUCTION

As per the Companies Act and Securities Exchange Board of India (SEBI), it is a mandatory requirement for all the registered companies to publish their financial statements to the different stakeholders. These financial statements give different financial information through the profit and loss account, balance sheet and cash flow statement. Based on the financial information available, the decision of investors is reflected in the stock movement. A stock price is also known as market price per share. After investing, it is the right of the investor to know how his/her investment is being utilized.

Financial information is the ability of accounting numbers which are impacting the equity share price of listed companies. Accounting information is defined as “value relevant if it has a predicted association with equity market values, i.e. stock returns (Sharma et al., 2012)”. Holthausen and Watts (2001) consider “an accounting number to be value relevant if it is useful in explaining value or returns over a long duration.”

Financial statements of listed companies are a tool to communicate to the investors, the general public and other stakeholders. Several studies have been conducted to know the impact of accounting variables like Dividend per share (DPS), Earnings per share (EPS), Book value per share (BVPS) and Cash flow on market price per share. Those studies have proved that earnings and book values are considered more value relevant for firm's

valuations than cash flows, as cash flows usually have severe matching and timing issues (Ohlson, 1995: and Barth et al., 1998). This observable fact is known as value relevance.

This present paper aims to judge if an investor gives due importance to the financial information presented by listed companies in their financial statements, especially cash flow statement. The presence of cash in a business can be seen as cash flow. According to the Statement of Financial Standards No 2, paragraph 05, cash flows are inflows and outflows of cash and cash equivalents.

REVIEW OF LITERATURE

Barth, Beaver, and Landsman (2001) state: “Value relevance research examines the association between accounting amounts and equity values.” Beisland (2009) defines value relevance as “the ability of financial statement information to capture and summaries information that determines the firm’s value.”

Perera and Thrikawala (2010), “has made the empirical research on the relevance of accounting information on the investor's decisions in commercial banks registered under the Colombo stock exchange (CSE) in Sri Lanka. The correlation coefficient study was for five years from 2006 to 2009 on accounting data market price per share (MPPS), earnings per share (EPS), Return on Equity (ROE) and Earning Yield (EY). It shows that there is a relationship between accounting variables and stock return”.

Vijith P and Nimalathan (2014) “examined the value relevance of accounting information such as earning per share, net assets value per share, price earnings ratio to share prices, return on equity of manufacturing companies of Colombo stock exchange applying correlation and ANOVA and proved value relevance of accounting information is most significantly correlated with share price”.

Remon Gunanta, Early Sherita, Suci Fuji Lestari (2015) State: the statement of cash flows and earnings per share on stock prices has a significant influence on stock prices in manufacturing companies listed on the Indonesia Stock Exchange.

Geetanjali Purswani and Anuradha P S (2017) “investigated the value relevance of accounting information such as book value per share, earning per share, , dividend per share, price to book value, cash flow from operating activities, net worth and assets turnover ratio have a significantly positive relation on the share price of construction contract of real estate companies listed on Bombay stock exchange” .

OBJECTIVES OF THE STUDY

The primary objective of this study is to test the relationship between cash flow information, i.e. operating activities, investing activities, financing activities and the market price of the share.

DATA AND METHODOLOGY

The market price of the Share (MPS): It is defined as the price that the market assigns to the companies stocks by and is taken as the dependent variable. For this study, the closing market price of the share is considered as a proxy variable.

Independent Variables:

1. Cash Flow from Operating Activities (CFOA): - This includes net income from the income statement, adjustments to net income and changes in working capital. Net profit is typically the first line item in the **operating activities** section of the **cash flow statement**.

2. Cash Flow from Financing Activities (CFFA): - Cash flow from financing activities includes cash flows from cash collections of debts issuance and payments of debts owned, shares purchases, cash acquisitions of shareholders and dividend payments.

Sample and Method

For this study, a sample of 10 companies listed throughout the study period (2010 to 2016) was selected from the Nifty Pharma Index Companies (as on 14.09.2017). The secondary data has been collected from the annual reports of the company, MoneyControl.Com, Prowess Database of CMIE and the data based on the National Stock Exchange (NSE).

Models used for Analysis**Fixed-Effect Model (FEM)**

FEM is used in this article to find out the heterogeneity of the companies. It is the most commonly used regression model for panel data.

Random Effect Model (REM)

REM is used in this study for the panel data regression to study the relationship of heterogeneity in the behaviour of breaking down the error term into two components. The following panel regression model is used to examine the relationship of cash flows from operating activities, investing activities, financing activities and share price.

$$MPPS_{it} = \beta_0 + \beta_1 CFOA_{it} + \beta_2 CFIA_{it} + \beta_3 CFFA_{it} + \mu$$

Where $\beta_0, \beta_1, \beta_2, \beta_3$, are the regression coefficients of financial variables.

MPPS is closing market price per share

CFOA is cash flow from operating activities

CFIA is cash flow from financing activities

μ is the stochastic error correctional term, and i and t represent company and time (year) respectively.

Table1: List of Companies included in the sample

Source: National Stock Exchange Official Website (www.nseindia.com)

S. No.	Company Name
1	Aurobindo Pharma Ltd.
2	Cadila Healthcare Ltd.
3	Cipla Ltd.
4	Divi'S Laboratories Ltd.
5	Dr Reddy'S Laboratories Ltd.
6	Glaxo SmithKline Pharmaceuticals Ltd.
7	Glenmark Pharmaceuticals Ltd.
8	Lupin Ltd.
9	Piramal Enterprises Ltd.
10	Sun Pharmaceutical Inds. Ltd.

DATA ANALYSIS AND DISCUSSION

Table 2: Descriptive Statistics of Cash flow information and Market Price per Share

MPPS		CFOA		CFFA	
Mean	1185.09	Mean	5174.24286	Mean	-1342.55
Median	724.625	Median	4803.25	Median	-2171.2
Standard Deviation	833.5065207	Standard Deviation	10708.284	Standard Deviation	13533.27
Minimum	481.15	Minimum	-47053.6	Minimum	-33981.3
Maximum	2767.4	Maximum	28515.2	Maximum	85586.5

Table 2 shows the descriptive statistics of cash inflow or outflow from operating activities and cash flow from financing operations. CFFA indicates the maximum value of standard deviation (13533.27) and the highest mean value is reported by CFOA(5174.24286), and the lowest value is CFFA(-1342.55).

Table 3: Results of Correlation Analysis

Variables	MPPS	CFOA	CFFA
MPPS	1		
CFOA	-0.296396595	1	
CFFA	0.110136203	0.060468494	1

Table 3 shows the correlation between the variables. MPPS, CFOA & CFFA, are correlated to each other. There is a negative correlation between MPPS and CFOA. There is a significantly positive correlation between MPPS & CFFA and CFOA & CFFA.

Table 4: Result of Panel Data Regression Analysis of Fixed-Effect Model and Random-Effect Model

Variables	Fixed-Effect Model			Random-Effect Model		
	Coefficient	t-Statistic	Prob	Coefficient	t-Statistic	Prob
Constant	1179.221	270.1159	0.0000	1179.040	4.451925	0.0000
CFOA	0.001113	2.289117	0.0262	0.001147	2.439744	0.0174
CFFA	-8.27	-0.292435	0.7711	-8.53	-0.30775	0.7592
R-Squared	0.999072			0.081946		
Adjusted R-Square	0.998769			0.054542		
SE of Regression	29.24428			28.99123		
F Statistic	3294.074			2.990241		

Source: All the numerical figures in the table calculated from eviews 9.5 version.

Table 4 shows the results of panel data regression obtained from the FEM and REM. The results of FEM indicate that CFFA negative coefficient of -8.27, while CFOA has a significantly positive factor of 0.00113. Thus, it can be concluded that share investors more rely on CFOA rather than CFFA.

The results of REM also indicate that CFFA negative coefficient of -8.53, while CFOA has a positive coefficient of 0.001147. The adjusted R-square of FEM and REM are 0.998769 and 0.054542 respectively, which show that the explanatory variables are significant. It means 99% of the variation market price per share has been explained by cash flow information in FEM and remaining 1% has been explained by other factors. While REM, only 5.4% of the

variation of the market price per share has been described by cash flow information and the balance 94.6% has been explained by the other factors.

CONCLUSION

From the statistical analyses, we can conclude that the cash flow from operating activities has a positive and significant relationship between market price per share of Nifty Pharma Index companies.

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