

Impact of Earnings per Share on Market Price of Share with Special Reference to Selected Companies Listed on NSE

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ABSTRACT

The study entitled "Impact of Earnings per Share on Market price of share with special reference to selected companies listed on NSE" was undertaken to find whether the Earnings per Share and market price of the share are related or not, whether EPS has any effect on the market price of the share. The most important factors that influence price of equity share are demand and supply. If investors start buying shares then prices move up and if investors start selling shares prices go down. There are various factors that may affect the market price of share such as Government policies, firm's and industry's performance. In this study the impact of Earnings per Share on share price of selected companies have been analysed, the strength of association of variables have also been measured. The study was conducted by collecting data from various websites. The selected companies were those companies which are listed and actively traded with high volumes in NSE (NIFTY 50). The data were collected from 5 companies from different sectors for the period of 2008-2017 for the study. The collected data was exploratory in nature which was measured through simple Correlation analysis and regression analysis. The analysis shows that share price of most of the companies is affected by the independent variable i.e. EPS.

Keywords-- EPS, Market Price of the share, NSE, NIFTY 50

In equities, the rule of Farming applies first you sow a seed, water it to grow, have patience and with passage of time, you will get fruits (returns) of your hard work and patience. There are various forms of equity like private equity, margin trading, shareholders' or stockholder's equity and ownership equity.

Stockholders' equity is also known as net worth or net assets. It is the amount that would be resituated to shareholders if all the company's assets were realized and all its debts indemnified. To conclude about the financial health of the organization, it is used as the most common financial instrument by the analysts. For example, Infosys's total stockholders' equity has increased in the past five years, from INR 3.89 billion in 2008 to INR 10.64 billion in 2017.

Equity market is also called the stock market or share market. It is a base for trading in shares of listed companies. Listed companies are those entities that have offered some part of their equity to public investors. Equity may either be traded in the primary market, when a company makes an Initial Public Offering (IPO) or in the secondary market when shares have already been issued. In the Indian **stock market**, equities are available for trading at the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). In this research the companies listed on NSE have been selected.

National Stock Exchange (NSE) is the leading stock exchange in India and the fourth largest in the world by equity trading volume in 2015, according to World Federation of Exchanges (WFE). It began affairs in 1994 and since 1995 it is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year. NSE offers trading in segments like equities (Equities, Indices, Mutual Funds, Exchange Traded Funds, Initial Public Offerings, Security Lending and Borrowing Scheme); derivatives (Equity Derivatives, Currency Derivatives and Interest Rate Futures) and debt. It launched internet trading in 2000 which was the first of its kind in India. This stock exchange comprises exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and

I. INTRODUCTION

Stocks of a company are normally separated into two parts: debt and **equity or stock**. Equity comes from the word *equal*. The equity shares are also known as ownership capital as a share can be defined as the dimension element of one's ownership in a company. Consequently the equity shareholders obtain part rights of the company and participate in their decision-making procedure.

Equity can be calculated as deducting the value of liabilities of something owed from the value of assets. It can be represented with the help of an accounting equation:

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

clearing members and listed companies with the rules and regulations of the exchange.

Earnings per share (EPS) refers to the per unit profit on single normal share. It is calculated for Equity shareholders by dividing profit after interest, tax & preference dividend by number of shares issued or number of common shares outstanding. The number of shares of common stock that have been purchased by stockholders is referred to as common shares outstanding. EPS is the main element in calculating the P/E ratio. This is a dimension which describes how much profits the company is hatching for its equity shareholders and hence used as an indicator of a company's profitability. Higher the EPS, higher will be the MPS (market price per share) and that is why it is considered as the most important variable in regulating the price of a share or stock. While accounting equity can potentially be negative, market price per share is always positive since equity shares represent ownership in limited liability companies.

Market price per share (MPS) is the price that a stock can be readily purchased or sold in the current market place. It is the "going price" of a share of stock. The MPS may vary everyday due to changes and fluctuations in the stock market and economy. Website like Yahoo Finance reports values of stocks on daily basis. MPS is affected by not only the economy as a whole but also investors' perceptions and expectations. For instance, Infosys issued another lackluster 2017 quarterly report. On 31st March, 2017 its MPS was Rs. 1022.25 however it fell down to 1008.80 on 3rd April, 2017. Investors started to lose faith in the giant tech company because of other competitors in the market place. As a result of investors changing opinions, Infosys's stock fell another 13 points (approx). On the other hand General Electric (GE) issues regular dividends to shareholders to maintain their stock prices. This is the perception of the investors that they will get dividends if they invest in GE and consequently they increased their demand which sooner or later turns into a higher stock price.

There have been various studies conducted to establish the relationship between EPS and MPS. Some of the studies have thrown light on this relationship as positively correlated but some have given opposite results.

II. REVIEW OF LITERATURE

Al-Rjoub Ashraf Mahammad, Alsharari Nizar Mohammad, Al-Qudah Anas Ali & Alfawaerah Nawwaf Hamid, (2013)[1], in their study tested the relationship between Stock returns and accounting profit (or EPS) for the stock's firms in the industrial sector in the Amman Financial Market (Jordan). The researchers used descriptive analytical method to achieve the objectives of the study i.e. to study the variables that contribute to determine the relationship between the EPS (earnings per share) & the market stock return. The researchers chose the Industrial sector and included 78

firms listed in this sector in the Amman Stock Exchange as their sample. For this study the dependent variable was the stock return (average market price of the share per annum) for each firm that have been selected in the study sample. The Independent Variable for the study selected by the researchers are many ratios. The hypothesis formulated for the study was that a) there is a significant effect for the percentage change in earnings per share (EPS), on the Market Stock Returns in the industrial companies which listed in Amman stock exchange (ASE). b) The level of earnings per share explains the market stock return better than percentage of change in earnings per share (EPS). c) The ability of the earnings to explain the market stock returns will not be affected when it represent more than one variable in the model of the relationship between profits and returns. The study concluded that ability of each variable of the change in earnings per share and a variable level of earnings per share does not explain more than 9.9% of the market returns of shares joint stock companies listed in the industrial sector in the Amman Financial Market.

Islam Md. Rashidul, Khan Tahsan Rahman, Choudhury Tonmoy Toufic & Adnan shique Mahmood, (2014)[2], in their study attempted to provide empirical evidence on how EPS affect the share price movement. The data collected and analyzed for the study was 22 scheduled banks from Dhaka stock exchange. It was found that share price does not move as fast as the EPS move. The study also concluded that the share price movement depends on micro and macro-economic factors on the economy. It also suggests that investors must consider other factors as well as EPS in order to invest in the security market. A hypothesis taken for the study was that EPS and Share Price move on the same track. The study concludes that EPS is running throughout the year in a positive way. By the analysis the study reveals an opposite result. Although the EPS is increasing, the share price is not increasing that much. So the null hypothesis is not accepted in the paper. After that the study also found some reasons because of which the share price is not increasing on the trend of EPS or despite of EPS rising. The factors that the researchers state can be categorized in 4 types- macroeconomic factor, microeconomic factor on the company, director's role and company's factor and other factors. So according to the study as an investor willing to spend some money in the capital market then that person should also consider all the factors including the EPS before investing. Therefore study summarizes that not only EPS affects market price but are also many indicators that reflects the best decisions.

Hemadivya K., Devi V Rama, (2013)[3], analyzed the various dimensions in improving the understanding of share prices and their determinants in broadening the base of share market, which may assist in creating a better investment culture in the country. The main objective of the study undertaken was 1. To identify the relationship between market price and earnings per share of selected Companies from NSE. 2. To analyse the impact of EPS on market price of selected

Companies. The study has undertaken companies from three sectors namely Primary, Manufacturing and service sectors. The companies that are selected in each sector were Tata Consultancy services (TCS), Bharat Heavy electrical Limited (BHEL) and ONGC. The tools used for analysis are coefficient of correlation and Analysis of Variance. The study concludes that there is a high positive relation between market price and EPS of BHEL, TCS and ONGC. The study also analysed that market price is significantly affected by changes in EPS with reference to ONGC and BHEL but in case of TCS market price is not significantly affected by changes in EPS with reference to TCS.

Balakrishnan K.P.,(2016)[4], attempted to find the impact of Earnings per Share, Dividend Per Share, Price Earnings Ratio on share price of selected industries and also measure the strength of association of independent variable (Dividend Per Share, Earnings Per Share, Profit Earning Ratio). Hence, the dependent variable in the present study was the average Market Price (MPS) of the selected companies in NSE. It was found that Earnings per Share of Pharma Sector are having high correlation with share price movements of Dr. Reddy, Ranbaxy, Sterling, and Torrent. Next to Earnings Per share, Price Earnings Ratio is having high positive correlation with Dr. Reddy, Sterling, and Torrent. The Dividend per Share is also having impact on three companies Dr Reddy, Sterling, Torrent. Even though they are positively correlated their impact is slighter in other companies.

Hence, it was concluded that all variables are not significantly explanatory variables in pharma sector. The correlation techniques have revealed that no single variable has significantly influenced the share prices of the selected industries. The study reveals that different variables assumed significance in different years depending upon the stock market conditions. Finally, the study says that the investors should keenly watch the situation like market price, economy, company progress, etc. and according to that they should take decisions whether to buy or sell securities.

Bhatt Pushpa & JK Sumangla, (2012)[5], in their study had specific objectives to see whether EPS impacts the equity market value, in the Indian context. The sample included the top 50 companies in the ranking of companies by market value as listed by Business Today survey for 2010. The data collected about EPS and market value of equity shares of 50 companies was for 5 years from 2006-07 to 2010-2011. The banking and other finance companies were excluded from the sample. According to the researcher the market value of the equity share is the arithmetic mean of the closing price of the equity share for one month after the financial year end for the company then it was normalized by dividing the equity market value by face value of the company's equity. EPS value (adjusted value whenever applicable) for the sample companies was normalized by dividing EPS by face value of equity share. The study concludes that EPS impacts the market value of an equity share in the Indian context. He feels that study needs to be

extended to longer time period to be able to describe the exact statistical relationship between EPS and market value of an equity share. In the study EPS can explain on an average about 45% of variation in market value of equity. Also the study mentions that there are a number of accounting variables impacting market value of an equity share other than EPS.

III. RESEARCH METHODOLOGY

Research methodology is a way to get answers systematically for the research problems. It includes the overall research design, the sampling procedure, and Data collection method and analysis procedure[6].

3.1 OBJECTIVES OF THE STUDY

The main objective of the study is

- To identify and analyze the impact of Earnings Per share on Market price of selected Companies of NSE (NIFTY 50).
- To find out whether Earnings per share and Market per share are associated and related.

3.2 HYPOTHESIS OF THE STUDY

1. H0: Null Hypothesis-“There is no significant impact of Earnings Per Share on Market Price of selected Companies.”

H1: Alternate Hypothesis-“There is a significant impact of Earnings Per Share on Market Price of selected Companies.”

2. H0: Null Hypothesis-“There is no significant relationship between Market Price and Earnings Per Share of selected Companies.”

H1: Alternate Hypothesis-“There is a significant relationship between Market Price and Earnings Per Share of selected Companies.”

3.3 NEED OF THE STUDY

The main purpose of this study is to find out the impact of Earning per share on Market per share. It also attempts to study the relationship of EPS on market price of selected Companies listed on NSE (NIFTY 50). This study helps in identifying whether MPS and EPS are associated and correlated, which helps the investors and analysts to make an appropriate investment decision.

3.4 RESEARCH DESIGN

A research design is the specification of methods and procedures for acquiring the needed information. Design adopted here is exploratory research. It basically seeks to extract information about the influence and relationship between Market Price and earnings per share of selected companies listed on NSE (NIFTY 50) in different sectors.

3.5 SAMPLE SIZE

The samples are chosen from the companies listed on NSE India (NIFTY50), which are actively and highly traded

Duration for study: 10 years

No. Of sectors: 5

No. Of companies: 5

Period taken for study: 2008-2017

The sample selected for the study include companies that are selected in each sector namely,

Infosys (Information technology), State Bank of India (Financial services), Dr Reddy (Pharmaceuticals), Bharti Airtel (Telecom) and Maruti Suzuki (Automobile). The EPS for every company has been taken as an average of a month after the end of financial year.

3.6 DATA SOURCE

While deciding about the method of data collection for the study, there are two ways namely, Primary data and Secondary data. Data used in the research is of secondary nature. The company's annual reports compiled from their respective websites have been used for data collection. NSE (National Stock Exchange) website is also used to gather the information about the company's market price; MoneyControl.com is also referred to analyze the company financials. The data collected from these sources have been compiled as per the requirement of the study.

3.7 STATISTICAL TOOLS

The present study attempts to study the relationship between Market Price and earnings per share of selected companies in different sectors by using coefficient of correlation and Analysis of Variance. The data are analysed through statistical methods using MS Excel.

IV. DATA ANALYSIS

Correlation

It is a measure of the strength of linear association between two variables. Correlation will always lie between -1.0 and +1.0. If the correlation is positive, we have a positive relationship. If it is negative, the relationship is negative [6].

Correlation Co-efficient:

$$\text{Correlation}(r) = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

Where N = Number of values or elements

X = First Score

Y = Second Score

$\sum XY$ = Sum of the product of first and Second Scores

$\sum X$ = Sum of First Scores

$\sum Y$ = Sum of Second Scores

$\sum X^2$ = Sum of square First Scores

$\sum Y^2$ = Sum of square Second Scores

Regression

Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the causal effect of one variable upon another. To explore such issues, the investigator assembles data on the underlying variables of interest and employs regression to estimate the quantitative effect of the causal variables upon the variable that they influence. The investigator also typically assesses the "statistical significance" of the estimated relationships, that is, the degree of confidence that the true relationship is close to the estimated relationship. $Y = a + bX$, where X is the explanatory variable and Y is the dependent variable. The slope of the line is b, and a is the intercept (the value of y when x = 0). The following tables depicts the relationship between EPS and MPS for the selected companies taken for the study. The regression is analysed by taking into account three components i.e. R square, Significance of F, and the regression equation $Y = a + bx$ where Y is the dependent variable MPS and X is the independent variable EPS.

Table 1.1

SUMMARY OUTPUT- INFOSYS (IT)

Regression Statistics	
Multiple R	0.80
R Square	0.65
Adjusted R Square	0.60
Standard Error	507.48
Observations	10

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	3781570	3781570	14.683649	0.00500422
Residual	8	2060289	257536.1		
Total	9	5841859			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	273.96	511.94	0.54	0.61	-906.58	1454.50	-906.58	1454.50
EPS (Rs.)	16.89	4.41	3.83	0.01	6.72	27.05	6.72	27.05

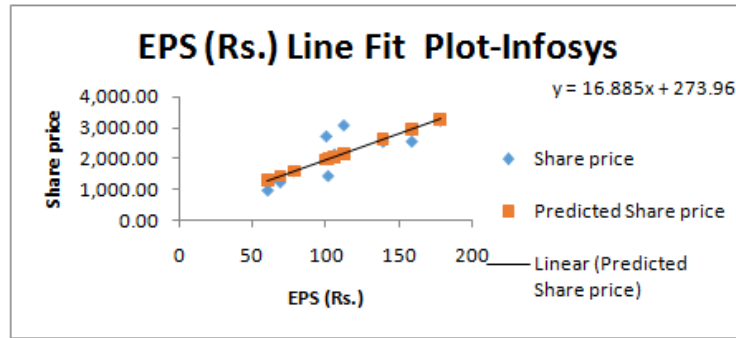


Fig 1.1

The correlation between EPS and Share Price has been calculated as 0.80 according to Table 1 in annexure, which shows that EPS and MPS are closely related. The above table 1.1 specifies the regression equation $MPS = 16.885EPS + 273.96$ and shows the output of regression analysis for Infosys (IT sector). Regression analysis tries to find out the impact of EPS on market price with reference

to Infosys. In present analysis R^2 is 0.65 which indicates if there is a 100 change in EPS there will be 65% change in market price. The analysis shows that F is significant at 0.01 level. Hence null hypothesis is rejected. It means that market price is significantly affected by changes in EPS with reference to Infosys.

Table 2.1

SUMMARY OUTPUT–
SBI (Financial Services)

Regression Statistics	
Multiple R	0.88
R Square	0.77
Adjusted R Square	0.74
Standard Error	479.13
Observations	10.00

ANOVA

	df	SS	MS	F	Significance F
Regression	1	6264584	6264584	27.28915	0.000798781
Residual	8	1836505	229563.2		
Total	9	8101089			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	215.91	288.83	0.75	0.48	-450.13	881.94	-450.13	881.94
EPS (Rs.)	8.90	1.70	5.22	0.00	4.97	12.84	4.97	12.84

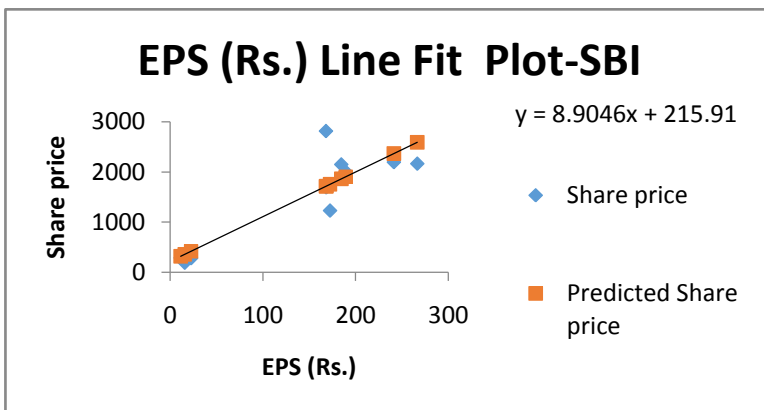


Fig 2.2

The correlation between EPS and Share Price has been calculated as 0.88 according to Table 2 in annexure which shows that EPS and MPS are closely related. The above table 2.1 indicates the regression equation $MPS = 8.904EPS + 215.91$ and depicts the output of regression analysis for SBI (Finance sector). Regression analysis tries to find out the impact of EPS

on market price with reference to SBI. In present analysis R^2 is 0.77 which indicates if there is a 100 change in EPS there will be 77% change in market price. The analysis shows that F is significant at 0.01 level. Hence null hypothesis is rejected. It means that market price is significantly affected by changes in EPS with reference to SBI.

Table 3.1
SUMMARY OUTPUT-
BHARTI AIRTEL (Telecom)

Regression Statistics	
Multiple R	0.11
R Square	0.01
Adjusted R Square	-0.11
Standard Error	195.71
Observations	10.00

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	3751.27	3751.27	0.10	0.76
Residual	8	306421.49	38302.69		
Total	9	310172.76			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	405.79	85.65	4.74	0.00	208.29	603.29	208.29	603.29
EPS (Rs.)	1.14	3.65	0.31	0.76	-7.28	9.57	-7.28	9.57

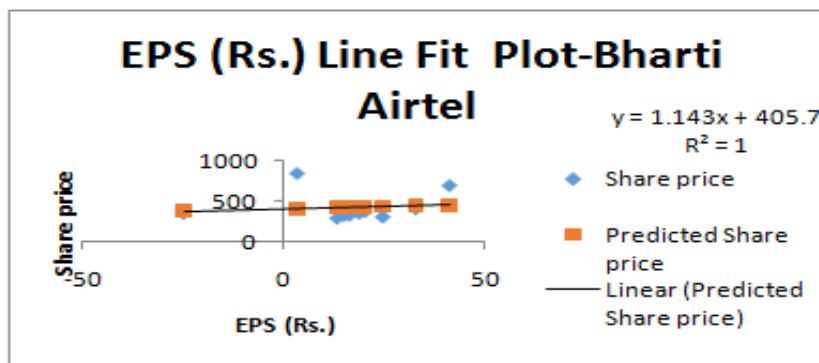


Fig. 3.2

The correlation between EPS and Share Price has been calculated as 0.11 according to Table 3 in annexure which shows that EPS and MPS are not closely related. The above table 3.1 states the regression equation $MPS = 1.143EPS + 405.79$ and demonstrates the output of regression analysis for Bharti Airtel (Telecom). Regression analysis tries to find out the impact of EPS

on market price with reference to SBI. In present analysis R^2 is 0.01 which indicates if there is a 100 change in EPS there will be 1% change in market price. The analysis shows that F is not significant at 0.76 level. Hence null hypothesis is accepted. It means that market price is not significantly affected by changes in EPS with reference to Bharti Airtel.

Table 4.1

SUMMARY OUTPUT-Dr Reddy (Pharmaceutical)

<i>Regression Statistics</i>	
Multiple R	0.89
R Square	0.79
Adjusted R Square	0.76
Standard Error	493.98
Observations	10.00

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	7352973.117	7352973	30.13332	0.00058098
Residual	8	1952117.298	244014.7		
Total	9	9305090.415			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-211.78	425.21	-0.50	0.63	-1192.32	768.77	-1192.32	768.77
EPS (Rs.)	32.51	5.92	5.49	0.00	18.85	46.17	18.85	46.17

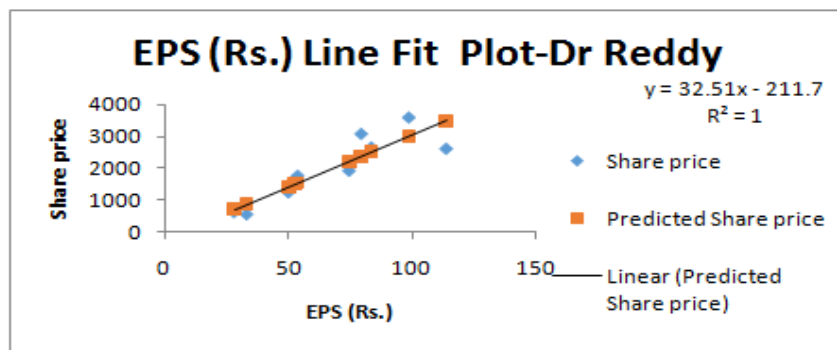


Fig. 4.2

The correlation between EPS and Share Price has been calculated as 0.89 according to Table 4 in annexure which shows that EPS and MPS are closely related. The above table 4.1 indicates the regression equation $MPS = 32.511EPS - 211.78$ and displays the output of regression analysis for Dr Reddy (Pharmaceutical sector). Regression analysis tries to find

out the impact of EPS on market price with reference to SBI. In present analysis R^2 is 0.79 which indicates if there is a 100 change in EPS there will be 79% change in market price. The analysis shows that F is significant at 0.01 level. Hence null hypothesis is rejected. It means that market price is significantly affected by changes in EPS with reference to Dr Reddy.

Table 5.1

SUMMARY OUTPUT-MARUTI SUZUKI (Automobile)

<i>Regression Statistics</i>	
Multiple R	0.98
R Square	0.95

Adjusted R Square	0.95
Standard Error	394.73
Observations	10

ANOVA

	Df	SS	MS	F	Significance F
Regression	1	26305504	26305504	168.83	1.1668E-06
Residual	8	1246485	155810.6		
Total	9	27551988			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-673.21	257.43	-2.62	0.03	-1266.83	-79.58	-1266.83	-79.58
EPS (Rs.)	28.88	2.22	12.99	0.00	23.76	34.01	23.76	34.01

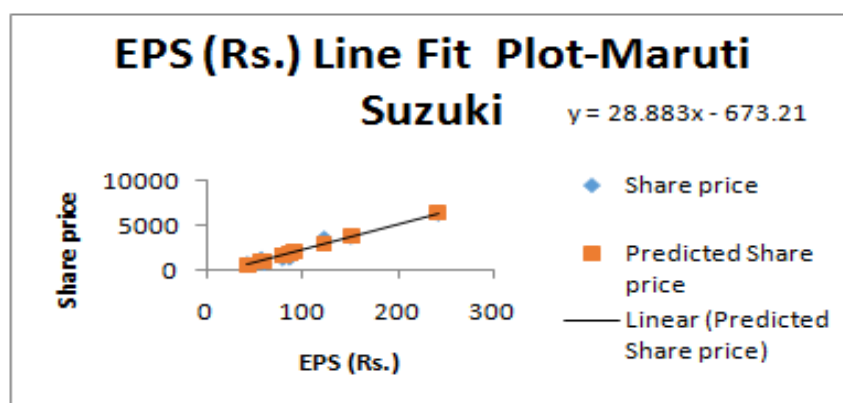


Fig. 5.2

The correlation between EPS and Share Price has been calculated as 0.98 according to Table 5 in annexure which shows that EPS and MPS are closely related. The above table 5.1 specifies the regression equation $MPS = 28.883EPS - 673.21$ and shows the output of regression analysis for Maruti Suzuki (Automobile sector). Regression analysis tries to find out the impact of EPS on market price with reference to SBI. In present analysis R^2 is 0.95 which indicates if there is a 100 change in EPS there will be 95% change in market price. The analysis shows that F is significant at almost 0 level. Hence null hypothesis is rejected. It means that market price is significantly affected by changes in EPS with reference to Maruti Suzuki.

V. CONCLUSION

There are different factors affecting the market price of a share. Among them one of the important factors taken in the study is Earnings per share. The present study concludes that for the companies undertaken for study are: Infosys, State Bank of India, Dr Reddy, Bharti Airtel and Maruti Suzuki. All the companies are listed on NSE and exhibited a positive

relationship between EPS and MPS except Bharti Airtel, which accepted the null hypothesis i.e. the EPS does not impact MPS. There are certain other factors also which may affect the market price of the share.

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ANNEXURE

Table 1

Infosys										
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic EPS (Rs.)	78.15	101.58	100.26	112.25	139.13	158.75	178.22	105.96	68.75	60.18
Avg. Share price (April)	1,571.80	1,415.93	2,714.94	3,075.17	2,540.03	2,544.05	3,224.99	2,124.53	1,210.05	946.60

Table 2

SBI										
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic EPS (Rs.)	168.61	172.68	184.82	168.28	241.55	266.82	189.55	22.76	15.95	11.52
Avg. Share price (April)	1691.04	1229.56	2148.07	2,813.52	2,194.09	2,163.91	2,004.46	279.99	190.85	288.88

Table 3

Bharti airtel										
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic EPS (Rs.)	3.46	41.4	24.82	20.32	15.09	13.42	16.51	33.02	18.88	-24.83
Avg. Share price (April)	839.16	690.41	305.05	369.76	320.6	290.49	326.84	403.61	350.95	346.27

Table 4

Dr Reddy										
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic EPS (Rs.)	28.17	33.3	50.11	52.78	53.81	74.51	113.63	98.56	79.4	83.48
Avg. Share price (April)	606.65	535.36	1230.9	1646.7	1752.51	1911.66	2603.91	3587.82	3071.75	2644.4

Table 5

Maruti suzuki										
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic EPS (Rs.)	59.89	42.17	86.45	79.21	56.59	79.19	92.13	122.86	151.37	242.97
Avg. Share price (April)	756.88	811.02	1351.59	1285.48	1342.58	1465.36	1944.84	3634.64	3673.98	6254.67

Data Source: Moneycontrol.com, in.finance.yahoo.com