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## BEHAVIOUR AND DETERMINANTS OF EQUITY SHARE PRICES IN INDIA WITH REFERENCE TO BANKING INDUSTRY

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*An attempt has been made to study the behaviour of share prices in the context of pre-dominance of service sector, moderate rate of industrialization, less perfect capital market and ignorance of investors about the share market. The present study seeks to improve the understanding of stock prices and their behaviour in their various dimensions by broadening the base of share market, which may be helpful in creating a better investment climate in the country. The study includes data of private and public sector banks from 1999 to 2005. The empirical relationship has been measured between equity prices and various variables, like book value, covers, dividend per share, earnings per share, price earning ratio, yield and growth measured in terms of sales.*

### INTRODUCTION

Investment is concerned with the purchase and sale of financial assets. It involve making logical decisions about the various alternatives in order to earn suitable returns. The investment decisions are said to be undertaken under four conditions namely certainty, risk, uncertainty, and conflict. The decisions are said to be made under conditions of certainty when there seems to be only one outcome of each option available to the decision makers i.e., investors. The main sources contributing to risk are changes in the external environment and internal factors of a company. External environment structure is also known as systematic risk and internal factors are called unsystematic risk. The decisions are said to be taken under uncertainty when neither the number of possible futures nor their probabilities of occurrence



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are known to the decision-maker. The condition of conflict arises only when there is information about an opponent who will act to harm the decision-maker. The investor has various alternative avenues of investment for his savings to flow in accordance with his preference. Savings which flow into investment produce returns but savings kept as cash are barren and do not earn anything. Savings are invested in assets depending on their risk and return characteristics. Investors are largely guided by the pecuniary motive of earning returns on their investment.

Very little empirical work has been done to study the behaviour and determinants of share prices. Although, there are extensive quotations of share market prices with different periodicity in investors' yearbooks, stock-exchange publications, periodicals and newspapers, most of the available data have not been systematically processed and analysed to identify the behaviour and determinants of share prices. The present study, therefore, seeks to examine various dimensions of share prices and determinants. This may broaden the base of share market and create a better investment climate in the country. The main objectives of the present study are: (a) To examine the empirical relationship between equity prices and various explanatory variables. (b) To study the changes in the relationship between and determinants. (c) To study the changes in relationship between determinants and equity share prices of industrial banks for all the banks of sample industry over the period.

## METHOD

**The Sample :** For the purpose of this study, sampling was done in two stages. Firstly, banking industry was selected. Secondly, while selecting sample banks, the following conditions were adhered to:

- (a) The availability of necessary financial data required for calculating the measure of dependent and independent variables from 1999 to 2005.
- (b) The banks did not skip dividend for any year.

Finally, six banks from banking industry were selected for this study which were: Bank of Baroda, Bank of India, HDFC Bank Ltd., ICICI Bank Ltd., Oriental Bank of Commerce and State Bank of India

**Data Collection :** The information about adjusted share price, sales, profit after tax, paid up capital, market price of share, earnings per share, dividend per share and the value of BSE SENSEX were obtained from PROWESS, a

corporate database compiled and published by the Center for Monitoring Indian Economy Private Limited (CMIE).

**Data Analysis :** Bansal (1998), has developed a model to analyse the relationship between equity share price and various determinants. The same model is used in this study. The following relationship of independent variables with dependent variables is formed where BV = Book Value, C = Cover, DPS = Dividend per share, EPS = Earning per share, G = Growth and y = Yield.

$$P = F(BV, C, DPS, EPS, G, P/E, Y)$$

For studying the impact of explanatory variables as dependent variables, statistical techniques like mean, standard deviation, correlation, and regression have been used.

## RESULTS

Analysis of Behaviour and Determinants of Equity Share Prices: An attempt has been made to study the behaviour and determinants of equity share prices of sample banks.

**Mean Value of Dependent and Independent Variables of Sample Banks:** The mean value of dependent and independent variables of sample banks are given in (Table - 1). The mean value of market price (MP) and book value (BV) showed a positive relationship in almost all the sample banks. The State Bank of India enjoyed a greater market price (Rs.298.58), followed by HDFC Bank (Rs.230.28), ICICI Bank (Rs.150.60), Oriental Bank of Commerce (Rs.96.45), Bank of Baroda (Rs.91.41) and Bank of India (Rs.33.18). The market value of HDFC Bank and ICICI Bank was greater than that of book value. This shows that the shares of these banks were overvalued. In the case of all other banks, the book values were greater than market value, which indicates that the securities of these banks were undervalued. The value of cover (C) of all the sample banks ranged from 6.82 times to 3.26 times. The State Bank of India has received highest cover value at 6.82 times, followed by ICICI Bank was 6.41 times, Oriental Bank of Commerce was 5.63 times, HDFC Bank was 4.13 times, Bank of Baroda was 4.04 times, and Bank of India was 3.26 times. The cover is the ratio of EPS/DPS. It is good to note that all sample banks earned positive values. This clearly indicates the fact that the dividend rate was well protected by all sample banks. While comparing growth of all sample banks, ICICI Bank enjoyed highest growth rate. It is important to note that low P/E is generally considered good because it may mean that the stock price has not

risen to reflect its full earning power. Higher P/E reflects an overpriced stock or decreasing earning. The analysis shows that Oriental Bank of Commerce earned low P/E ratio of 3.87 times, followed by Bank of Baroda at 4.60 times, Bank of India at 5.43 times, State Bank of India at 6.19 times, ICICI Bank at 11.72 times and HDFC Bank at 21.21 times. High yield (Y) is good for the company. The Table - 1 further shows that Bank of India enjoyed higher rate (8.23), followed by Oriental Bank of Commerce at 7.15, Bank of Baroda at 6.53, ICICI Bank at 2.77, State Bank of India at 2.51 and HDFC Bank at 1.24. In short, Bank of India has more favorable yield than other banks during study period.

**Standard Deviation of Dependent and Independent Variables of Sample Banks :** It is important to note that a low value standard deviation means a high degree of uniformity of the observation as well as homogeneity of series and vice versa. The standard deviation is compared with mean value as given in (Table-1). The value of standard deviation of dependent (MP) and independent variables (BV, C, DPS, EPS, G, P/E and Y) as given in Table-2 shows that the market price (MP) deviated greatly from its mean value. The figures of the book value (BV) also showed volatility. The standard deviation of earnings per share (EPS) was fluctuating in a consistent way. The standard deviation regarding growth (G) during the study period was least from its mean value, whereas, dividend per share (DPS), cover (C) and price earnings ratio (P/E) revealed mixed results. The yield (Y) gave low standard deviation for all sample banks, which remained below 5.00.

**Zero Order Correlation Matrix for Grouped Data over the Study Period for the Bank of Baroda:** The correlation matrix is drawn between independent variables (BV, C, DPS, EPS, G, and Y) and dependent variables (MP). The correlation value should fall between plus one (+1) and minus one (-1). From (Table-3) it is evident that the book value (BV) has positive correlation with market price at one percent level of significance but there was no relationship between the cover and market price. In the case of yield (Y), there was a negative correlation at one percent level of significance. The growth had significant inverse relationship with book value at 5 percent level of significance. The dividend per share (DPS) had one percent level of significance with book value. In the case of growth, there was negative correlation at 5 percent level of significance. The earnings per share (EPS) witnessed significant relationship with dividend per share at 5 percent level. Dividend per share and earnings per share were correlated around 6 percent volatility in relation to the market price, whereas, yield (Y) had inverse relationship with all the variables.

**Zero Order Correlation Matrix for Grouped Data over the Study Period for the Bank of India:** From Table-4 it is understood that the book value has positive correlation with market price at 5 percent level of significance, but there was negative relationship between the yield and market price around 6 percent. In the case of growth, there was negative correlation to market price at one percent level of significance. The cover, dividend per share and earnings per share had correlated to book value around 6 percent. The dividend per share and earnings per share were correlated with cover at one percent and 5 percent level of significance. The earnings per share had correlated with dividend per share at 5 percent level of significance. The dividend per share was correlated to cover around 7 percent. The yield had significant inverse relationship with price earnings ratio at one percent level.

**Zero Order Correlation Matrix for Grouped Data over the Study Period for the HDFC Bank Ltd:** Table-5 reflects zero order correlation matrix for grouped data over the study period for the HDFC Bank Ltd. The book value, dividend per share and earnings per share were positively correlated with market price at 5 percent level of significance. But there was no relationship between price earnings ratio and market price. While considering the relationship of earnings per share and dividend per share with book value, it was found that there had been significant positive relationship with book value and cover at 5 percent level. The earnings per share was correlated with dividend per share at 5 percent level of significance. In the case of price earnings ratio, there was significant positive relationship with growth at 1 percent level. The growth, price earnings ratio and yield was inversely related with all the variables and vice versa.

**Zero Order Correlation Matrix for Grouped Data over the Study Period for ICICI Bank Ltd:** From Table-6, it is noted that the book value was positively correlated with market price at 5 percent level of significant but there was no relationship between price earnings ratio and market price. In the case of earnings per share, it was positively correlated with market price at one percent level of significance. While considering two variables, earning, per share and dividend per share, were positively correlated with book value at 5 percent level of significance. The earnings per share was positively correlated with dividend per share at 5 percent level of significance. The dividend per share was correlated with market price around 7 percent. The yield was inversely correlated with all the variables and vice versa.

**Zero Order Correlation Matrix for Grouped Data over the Study Period for the Oriental Bank of Commerce:** From Table-7, it is evident that the book value, cover, earnings per share and price earnings ratio were positively correlated with book value at 5 percent level of significance, but there was no relationship between dividend per share and market price. In the case of cover and earnings per share, they had significant positive relationship with book value at 5 percent level of significance. The yield was inversely related with market price at 5 percent level of significance. While considering earnings per share, it was positively correlated with cover at 5 percent level of significance. The yield was inversely correlated with earnings per share. The growth and price earnings ratio were inversely correlated with earnings per share at one percent level of significance. In the case of yield, it had inverse correlation with all the variables and vice versa.

**Zero Order Correlation Matrix for Grouped Data over the Study Period for the State Bank of India:** Table-8 shows zero order correlation matrix for grouped data over the study period for the State Bank of India. The dividend per share and earnings per share had significant positive relationship with market price and book value but there was no relationship between price earnings ratio and market price. In the case of growth, it was inversely correlated with market price and book value at 5 percent level of significance. The book value had significant positive relationship with market price at 5 percent level of significance. While considering yield, it was found that there was inverse relationship with cover at one percent level of significance. The growth had significant inverse relationship with maximum variables at 5 percent level of significance.

**Year Wise Mean Value of Dependent and Independent Variables for all the Sample Banks:** The mean value of dependent and independent variables for the period ranging from 1999 to 2005 are given in table-9. The mean value of market price (MP) and book value (BV) showed a positive correlation in almost all the years. The highest market value was 304.22 rupees in 2005 and lowest value was 73.02 rupees in 1999. The market value was greater than that of book value in almost all the years except 2002 and 2003. This shows that the shares were overvalued. In the case of book value, it was greater than the market value in 2002 and 2003 which indicates that the securities were undervalued. The highest cover value (7.39 times) and lowest (3.55 times) were recorded in 2002 and 1999 respectively. It is good to note that all the years earned positive values of cover. This clearly indicates the fact that the dividend rate was well protected by earnings in all the years of study period. While comparing the growth, highest value (59 percent) in 2003 and lowest

(4 percent) in 2005 were achieved. It is important to note that low P/E is generally considered good because it may mean that the stock price did not reflect its full earning power. Higher P/E reflects an overpriced stock or decreasing earnings. The analysis establishes low P/E ratio of 5.51 times in 2003 and highest of 11.54 in 2001. Higher yield (Y) is good for the company. Table - 9 further shows that higher yield was depicted in the initial years of the study whereas, it declined after that.

**Year Wise Standard Deviation of Dependent and Independent Variables of Sample Banks from the Banking Industry:** The standard deviation was compared with mean value as given in Table-9. The value of standard deviation of dependent and independent variables is given in Table-10. It shows that the market price (MP) deviated greatly from its mean value. The figures of the book value (BV) also showed volatility. The standard deviation of earnings per share (EPS) was fluctuating in a consistent way. The growth (G) showed least standard deviation from its mean value. The dividend per share (DPS), cover (C) and price earnings ratio (P/E) revealed mixed results. The yield (Y) showed low standard deviation in all the years, which remained below 6.00 rupees. The highest yield was 5.95 rupees and lower at 0.90 in all the years.

**Zero Order Correlation Matrix for Grouped Data over the Study Period for the Banking Industry:** From Table-11, it is evident that the dividend per share and earnings per share, was positively correlated with market price and book value at 5 percent level of significance but yield was inversely correlated at 5 percent level of significance. In the case of price earnings ratio, it established positive relationship with book value at one percent level of significance. The yield had inverse relationship with cover at one percent level. Earnings per share was positively correlated with dividend per share but there was no relationship between growth and cover. In the case of yield, it was inversely correlated with price earning ratio at 5 percent level of significance. The growth, price earnings ratio and yield had inverse relationship with all the variables and vice versa.

**Multiple Regression for Grouped Data over the Study Period for the Banking Industry:** Table-12 shows multiple regression for grouped data over the study period for the banking industry. The coefficient of determination showed 89 percent variation in the market price as indicated by all the independent variables (BV, C, DPS, EPS, G, P/E and Y). Table - 12 also reveals that the book value and price earnings ratio were significant at 5 percent level of significance while dividend per share was significant at one

percent level of signification. In the case of growth and yield, they went through a negative slope. The regression constant stood at -91.59. This shows that book value, cover, dividend per share, and price earnings ratio exerted positive impact on market price but growth and yield had negative impact on the market price. The adjusted showed only 87 percent variation in share price, as indicated by the independent variables. Table-13 shows the overall analysis of variables that influenced the equity share prices of sample banks in the market.

### CONCLUSION

In the case of banking industry, it can be concluded from correlation and regression analysis that variables like book value, dividend per share and price earnings ratio contributed much to the determination of the equity share prices, followed by earnings per share and cover. During the study period, the market was said to be in a state of boom because the software industry and banking industry were performing well. But if the trend changes, it will affect the industry which will have an impact on the equity share price. As the equity shares in India offer very high returns especially in the long run. The investors should study the performance of the equity markets in terms of its risk and returns. The investor should go for equity diversification.

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Table-1

### BANKWISE MEAN VALUE OF DEPENDENT AND INDEPENDENT VARIABLES (1999-2005)

Bank	MP	BV	C	DPS	EPS	G	P/E	Y
B O B	91.418	139.209	4.041	4.870	20.020	0.073	4.607	6.533
BOI	33.187	55.940	3.265	2.160	7.683	0.068	5.431	8.238
HDFC	230.285	67.760	4.138	2.597	11.354	0.454	21.212	1.242
ICICI	150.609	89.031	6.410	4.263	14.483	0.836	11.728	2.772
OBC	96.458	105.096	5.630	3.786	21.089	0.149	3.876	7.151
SBI	298.586	306.029	6.822	7.429	50.321	0.112	6.194	2.518

Source: Corporate Database- Prowess.

Table-2

### BANKWISE STANDARD DEVIATION OF DEPENDENT AND INDEPENDENT VARIABLES (1999-2005)

Bank	MP	BV	C	DPS	EPS	G	P/E	Y
B O B	59.586	34.346	0.691	1.499	8.027	0.049	2.142	2.761
BOI	20.712	22.139	1.010	0.964	5.559	0.074	3.302	4.846
HDFC	120.898	44.457	0.679	1.181	6.597	0.257	6.045	0.422
ICICI	93.099	51.297	8.198	3.832	9.939	0.991	5.920	1.780
OBC	99.045	38.831	3.350	0.699	11.447	0.114	1.908	3.753
SBI	140.522	91.069	1.120	3.297	21.147	0.066	1.925	0.469

Source: Corporate Database- Prowess.

Table-3

ZERO ORDER CORRELATION MATRIX FOR GROUPED DATA  
OVER THE STUDY PERIOD FOR THE BANK OF BARODA

	MP	BV	C	DPS	EPS	G	P/E	Y
MP	1.000							
BV	.840*	1.000						
C	.247	.210	1.000					
DPS	.654	.852*	.386	1.000				
EPS	.611	.749	.663	.945**	1.000			
G	-.738	-.894**	-.064	-.612	-.488	1.000		
P/E	.743	.403	-.229	.036	-.055	-.468	1.000	
Y	-.782*	-.324	-.110	-.114	-.137	.291	-.889**	1.000

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Source: Corporate Database- Prowess.

Table-4

ZERO ORDER CORRELATION MATRIX FOR GROUPED DATA  
OVER THE STUDY PERIOD FOR THE BANK OF INDIA

	MP	BV	C	DPS	EPS	G	P/E	Y
MP	1.000							
BV	.885**	1.000						
C	.481	.691	1.000					
DPS	.340	.666	.755*	1.000				
EPS	.375	.671	.937**	.928**	1.000			
G	-.833*	-.737	-.078	-.147	-.060	1.000		
P/E	.445	.017	-.295	-.657	-.543	-.436	1.000	
Y	-.667	-.292	-.105	.322	.139	.520	-.869*	1.000

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Source: Corporate Database- Prowess.

Table-5

ZERO ORDER CORRELATION MATRIX FOR GROUPED DATA  
OVER THE STUDY PERIOD FOR THE H D F C BANK LTD.

	MP	BV	C	DPS	EPS	G	P/E	Y
MP	1.000							
BV	.931**	1.000						
C	.806*	.847*	1.000					
DPS	.938**	.986**	.885**	1.000				
EPS	.918**	.972**	.926**	.992**	1.000			
G	-.485	-.715	-.674	-.748	-.754	1.000		
P/E	.069	-.248	-.266	-.268	-.309	.788*	1.000	
Y	-.601	-.373	-.434	-.354	-.340	-.253	-.733	1.000

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Source: Corporate Database- Prowess.

Table-6

ZERO ORDER CORRELATION MATRIX FOR GROUPED DATA  
OVER THE STUDY PERIOD FOR THE I C I C I BANK LTD.

	MP	BV	C	DPS	EPS	G	P/E	Y
MP	1.000							
BV	.906**	1.000						
C	-.179	-.202	1.000					
DPS	.750	.897**	-.477	1.000				
EPS	.832*	.956**	-.174	.941**	1.000			
G	-.353	-.089	-.006	.063	-.054	1.000		
P/E	.145	-.213	-.078	-.365	-.382	-.366	1.000	
Y	.061	.327	-.632	.683	.462	.511	-.609	1.000

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Source: Corporate Database- Prowess.

Table-7

ZERO ORDER CORRELATION MATRIX FOR GROUPED DATA  
OVER THE STUDY PERIOD FOR THE ORIENTAL BANK OF  
COMMERCE LTD.

	MP	BV	C	DPS	EPS	G	P/E	Y
MP	1.000							
BV	.929**	1.000						
C	.950**	.940**	1.000					
DPS	.029	.132	-.113	1.000				
EPS	.927**	.948**	.896**	.336	1.000			
G	-.718	-.873*	-.689	-.327	-.791*	1.000		
P/E	.956**	.801*	.872*	-.141	.786*	-.585	1.000	
Y	-.977**	-.847*	-.883**	-.091	-.898**	.615	-.961**	1.000

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Source: Corporate Database- Prowess.

Table-8

ZERO ORDER CORRELATION MATRIX FOR GROUPED DATA  
OVER THE STUDY PERIOD FOR THE STATE BANK OF INDIA

	MP	BV	C	DPS	EPS	G	P/E	Y
MP	1.000							
BV	.919**	1.000						
C	-.174	-.033	1.000					
DPS	.942**	.983**	-.114	1.000				
EPS	.890**	.973**	.131	.970**	1.000			
G	-.887**	-.948**	.014	-.976**	-.967**	1.000		
P/E	.061	-.251	-.804*	-.172	-.376	.295	1.000	
Y	-.160	.215	.219	.179	.251	-.262	-.725	1.000

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Source: Corporate Database- Prowess.

Table-9

YEARWISE MEAN VALUE OF DEPENDENT AND INDEPENDENT  
VARIABLES FOR ALL THE SAMPLE BANKS

Year	MP	BV	C	DPS	EPS	G	P/E	Y
1999	73.027	71.600	3.555	2.355	9.025	0.343	8.820	3.917
2000	90.871	89.930	4.424	2.704	13.903	0.345	9.620	4.353
2001	119.503	100.382	4.398	3.030	15.235	0.281	11.547	6.058
2002	108.295	115.942	7.395	3.164	15.255	0.295	8.098	6.395
2003	123.878	141.057	4.813	5.489	26.613	0.591	5.518	6.807
2004	230.833	166.927	5.002	6.503	32.700	0.071	7.671	3.482
2005	304.225	204.405	5.772	6.043	33.043	0.049	10.616	2.181

Source: Corporate Database- Prowess.

Table-10

YEARWISE STANDARD DEVIATION OF DEPENDENT AND  
INDEPENDENT VARIABLES FOR ALL THE SAMPLE BANKS

Year	MP	BV	C	DPS	EPS	G	P/E	Y
1999	62.846	69.015	0.728	1.200	6.493	0.274	3.750	2.089
2000	77.575	74.651	1.790	1.683	13.549	0.314	8.534	3.157
2001	99.515	82.064	2.083	1.349	14.052	0.272	12.952	5.245
2002	91.403	89.923	8.752	1.849	12.817	0.315	8.016	5.918
2003	93.557	95.218	1.411	2.235	16.467	1.159	5.425	3.955
2004	136.194	111.832	1.534	3.073	20.161	0.080	4.701	1.784
2005	169.707	129.032	3.538	3.909	25.862	0.110	5.065	0.901

Source: Corporate Database- Prowess.



Table-11

**ZERO ORDER CORRELATION MATRIX FOR GROUPED DATA  
OVER THE STUDY PERIOD FOR THE BANKING INDUSTRY**

	MP	BV	C	DPS	EPS	G	P/E	Y
MP	1.000							
BV	.723**	1.000						
C	.226	.230	1.000					
DPS	.652**	.846**	-.031	1.000				
EPS	.736**	.961**	.278	.863**	1.000			
G	-.066	-.240	.041	-.086	-.215	1.000		
P/E	.350*	-.263	-.042	-.290	-.271	.265	1.000	
Y	-.616**	-.242	-.342*	-.064	-.229	-.148	-.654**	1.000

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Source: Corporate Database- Prowess.

Table-12

**MULTIPLE REGRESSION FOR GROUPED DATA OVER  
THE STUDY PERIOD FOR THE BANKING INDUSTRY**

$$P = b_0 + b_1 BV + b_2 C + b_3 DPS + b_4 EPS + b_5 G + b_6 P/E + b_7 Y$$

	B	SE	T-Value
BV	2.178**	0.278	4.639
C	3.536	2.703	1.308
DPS	17.094*	6.845	2.497
EPS	2.759	1.722	1.603
G	-23.056	16.934	-1.361
P/E	10.267**	1.740	5.900
Y	-2.543	3.456	-0.736
Constant (b <sub>0</sub> )	-91.597	45.820	-1.999
	$R^2 = .893$	$R^{-2} = .871$	

\* Correlation is significant at 1percent level.

\*\* Correlation is significant at 5 percent level.

Table-13

**BANKING INDUSTRY**

S.No	Banks	Variables which influenced the Equity Share Prices
1.	Bank of Baroda	Book value*
2.	Bank of India	Book Value**
3.	HDFC Bank Ltd.	Book Value**, Dividend Per Share**, Earning Per Share**, and Cover*
4.	ICICI Bank Ltd.	Book Value** and Earning Per Share*
5.	Oriental Bank of Commerce	Book Value**, Cover**, Earning Per Share**, and Price Earning Ratio**
6.	State Bank of India	Book Value**, Dividend Per Share**, Earning Per Share**.
	Banking Industry (Overall)	Book Value**, Dividend Per Share**, Earning Per Share** and Price Earning Ratio*.

\* Correlation is significant at 1percent level.

\*\*Correlation is significant at 5 percent level.