

# A study on effect of share holding pattern on risk and return of stock with respect to NIFTY50

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**Abstract:** *Ownership structure or the stakeholder structure of an organization often play a significant role in the operation decisions, monitoring and control. Under such circumstances, assessing the impact of organizational structure or stakeholder pattern and firm's performance becomes unavoidable to assess. In addition, the relationship between the investment pattern and respective conflicts of interests is inescapable to be examined. To ensure investment security corporate governance has played vital role that suggests assessing the inter-relationship between the stakeholder pattern and firm performance. With this motivation, in this paper an empirical study has been done to examine the impact of internal shareholding patterns on the associated firm's performance and effect of risk and return of stock. In this paper we have performed an empirical study where the above-mentioned relationship has been examined for Indian listed NIFTY 50 companies for the duration of the financial year 2015 to 2019.*

**Key Words:** *Shareholding Pattern, Firm Performance, Risk & Return, NIFTY 50 Companies.*

## 1. INTRODUCTION:

Stock market is always considered as a way to earn money easily in Indian Scenario. But as the time passes awareness has been increased and people start considered it as medium of investment and they also consider so many things while they are investing in stocks. The contemporary analysis of the impact of shareholding pattern on the firm performance can play vital role for investors to understand organizational business process and associated performance. In this study, we aimed at investigating various key constructs characterizing relationship between the shareholding pattern and the effect of Risk and Return. A case study, NIFTY-50 companies are considered where the annual data of the selected population or sample companies are taken for five years (i.e., from 2015 to 2019). Using the data from annual reports of Indian NIFTY-50 companies from 2015 and 2019, it has been observed that ownership structure impact on shareholders' value creation and firm patterns.

## 2. LITERATURE REVIEW:

**Loderer and Martin (1997)** From the contractual settings between the company and the associated stakeholders, the interest of other investors can be significantly secured. They also stated that shareholders are left as applicants whose interests can only be protected by shareholding by internal (i.e., director ownership) as a measure of ownership.

**Jürgen Weigand (2000)** Their empirical study revealed that the profitability of pay share does not necessarily increase in the presence of most shareholders. In addition, he stated that a wide range of concentration of ownership appeared as a sub-optimal choice of many tightly held German corporations. Interestingly, their research has shown that concentration of ownership has a negative effect on profit.

In disparity to the overhead debated theories, applying the Ordinary Least Squares (OLS) and Two-stage Least Squares (2 SLS) regression method, **Demsetz and Villalonga (2001)** found that there is no significant relationship between the ownership structure and the firm performance.

**Pant and Pattanayak (2007)** Examined the influence of internal ownership on corporate value in India during the period 2001 - 2004; 1833 (BSE) using listed companies. They provide evidence that the relationship between internal shareholding and firm value is non-linear in nature and that there is a significant non-monotonic relationship between the two. Tobin's Q rose first, then declined, and eventually the ownership of the insiders increased. The study also confirmed that foreign promoter / associate shareholding has a significant positive effect on the firm's cost.

**Douma, George and Kabir (2006)** Examined the differential influence of foreign institutional and foreign corporate shareholders on the performance of 1005 emerging market companies using the Capital Line 2000 database. They used OLS regression to estimate the relationship between ROA and Tobin's Q and the influence measured by ownership variables, suggesting that the impact of foreign ownership on the conclusion is attributable to foreign corporations and

that the effect of foreign institutional investors on performance is not clear-cut. They have documented the positive impact of corporations' visuals financial institutions with respect to local shareholding.

**M Patibandla (2006)** In the context of the Indian economy as a developing country, using solid-level data from 12 Indian industries during the period 1989- 2000, private direct institutional investors and government-owned local financial institutions split local institutional investors into 2 groups - comprising 148 companies using the CMIE database. He argued that government-owned institutions have little incentive for monitoring managers. Empirical results show that the increasing presence of foreign institutional investors shows a decrease in profitability and the impact that firms that rely on government financial institutions for external financial institutions.

**Mohanty (2002)** It is found that the basic purpose of the institutional investor is to increase the assets of his own shareholders and not to oversee the activities of the companies in which he has invested. However, they found that development financial institutions gave money to companies with better measures of corporate governance. They also feel that mutual funds have invested money in companies with better corporate governance records. They found that the corporate governance index was positively associated with financial performance measures such as Tobin's Q and industry-adjusted excess stock returns. Using the simultaneous equation approach, they find that this positive association is for two reasons. First, development financial institutions have invested in companies with good governance records, and second, their investment has improved the financial performance of companies.

**Sarkar and Sarkar (2000)** Looked at the role of large shareholders in corporate governance and found that block-holdings by directors increase the value of a company after a certain level of holding and institutional investors; Mutual funds were generally not active in governance, and lending institutions began to monitor effectively when they had significant equity holdings in the company, and this monitoring was strengthened by the extent of debt presumption by these institutions. The centrally owned company had a positive effect on the value of the company supporting the concept of 'conversion of interest' rather than the 'intervention' hypothesis. Their analysis also highlighted that owning foreign equity had a beneficial effect on the value of the company.

### 3. RESEARCH OBJECTIVES:

- To analyse the shareholding pattern of selected companies (I.e., NIFTY50 Companies.)
- To analyse the CAGR (compound annual growth return) of selected companies of last five years.
- To measure the effect of shareholding pattern (Promoters, FII, DII and other holdings) on CAGR on selected stock

### 4. RESEARCH DESIGN:

Here we are using Quantitative Research which is an organized way of gathering and analysing data obtained from diverse sources. It includes the use of computational, statistical and mathematical tools to derive results.

#### 4.1 SAMPLING DESIGN:

Population: Companies listed on NSE India (1600+)

Sample: NIFTY 50 Companies

Sampling Method: Convenience Sampling Method

Sampling Period: 5 Years (i.e.2015 to 2019)

#### 4.2 DATA COLLECTION:

Secondary data is data collected from studies, surveys, or experimentations that have been done by other persons or for other study. Here we have taken the past 5-year data of share price.

That includes...

- Monthly Closing price of share from January-2015 to December-2019 of NIFTY50 companies.
- Shareholding pattern of the company as on December-2019.

#### 4.3 DATA ANALYSIS TOOLS:

- CAGR formula
- ANNOVA: Single Factor
- Microsoft excel-2019

### 5. DATA ANALYSIS AND INTERPRETATION:

#### 5.1. Analysis of Share holding pattern (First level: Among Shareholding members)

**Table 1: Correlation table of share holding pattern:**

Correlation	PROMOTER	PLEDGED	FII/FPI	DII	FIN.INST	INSURANCE CO.	MF	OTHER DII	OTHERS
PROMOTER	1.00								
PLEDGED	-0.18	1.00							
FII/FPI	-0.65	0.22	1.00						
DII	-0.70	0.04	-0.02	1.00					
FIN.INSTS/BANKS	-0.08	0.13	-0.04	0.27	1.00				
INSURANCE CO.	-0.40	-0.16	-0.20	0.72	-0.10	1.00			
MF	-0.64	-0.14	0.26	0.65	0.11	0.38	1.00		
OTHER DII	-0.52	0.23	-0.08	0.79	0.13	0.41	0.17	1.00	
OTHERS	-0.38	0.02	-0.07	0.22	-0.22	0.23	0.14	0.23	1.00

**Interpretation:**

- Promoters shareholding are always negatively correlated with other share holders
- Pledged shareholding are mostly positively correlated with other shareholders except insurance company and mutual funds.
- FIIS are having only positive correlation with mutual fund.
- DIIs are positively correlated with every shareholding party except FIIs and promoters.
- Financial institutions are having very less correlation with every shareholding party.
- Insurance companies highly correlated with DIIs.

**5.2. Analysis of monthly CAGR of NIFTY 50 stock (Second level: CAGR return on monthly bases)**

**Hypothesis:** There is no Significance difference in the CAGR Return of selected stock on a monthly basis.

**Table 2:** Hypothesis Testing for Difference in Return in between of selected stock on a monthly basis

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	38111.38185	58	657.0927905	8.499571043	7.99504E-64	1.32850215
Within Groups	223500.1329	2891	77.30893562			
Total	261611.5147	2949				

**Interpretation:** Here the ANOVA test is applied for all the analysis between month wise and the companies’ stock wise CAGR Return analysis. Here Calculated value of F is more than its Critical value of F. F Value 8.49 and F Crit is 1.32 so, here  $F > F_{crit}$ . thus null hypothesis is rejected and it is proved that there is significance difference in CAGR return of selected stocks on a monthly basis.

**5.3. Analysis of impact on CAGR on the basis of shareholding pattern (Third Level between different shareholding pattern)**

**Hypothesis:** There is no Significance difference in the CAGR return of selected stock based on percentage of shareholding patterns.

**Table 3:** Hypothesis Testing for Difference in Return in between of selected stock based on percentage of shareholding patterns.

Sr No.	Index	Shareholdings	F	F crit	Action
1	NIFTY 50	Promoters	15.2112	2.0293	HO Rejected

2	NIFTY 50	FII's	10.3282	2.2399	HO Rejected
3	NIFTY 50	DII's	12.8365	2.2399	HO Rejected
4	NIFTY 50	Others	6.0976	2.4027	HO Rejected
5	NIFTY 50	Pledged	6.1529	2.4027	HO Rejected
6	NIFTY 50	Mutual Fund	8.6860	2.6435	HO Rejected
7	NIFTY 50	Insurance	9.1857	1.9561	HO Rejected

**Interpretation:** Out of 7 hypothesis ALL rejected which indicates there is no significance difference in the return of selected stock based on percentage of shareholding patterns.

## 6. LIMITATIONS:

- Here CAGR method used to find return of shares, although there are number of ways to find return of share. Which differs person to person.
- Selected companies of NIFTY50 only, it may not apply to other companies.
- Only 5 years of data has been used.

## 7. FINDINGS:

- In most of the companies of nifty50 companies, promoters' holding is highest.
- Financial institution investors have average 10% to 30% of holding.
- Just like FIIs, 33 companies from NIFTY50 having holding of average 10% to 30% of holding.
- Others Shareholding includes parties like Trusts, clearing members, Individual, NRI's, Custodian, etc. holding. In NIFTY50 most of the companies have 5% to 10% of holding out of 100% shareholding.
- There are very few companies' promoters have pledged their shares more than 1%. Only Zee entertainment's promoters has pledge 96% of their share.
- Mutual fund holding in NIFTY50 companies, averages between 5% to 10%.
- Insurance companies having holdings of 0% to 8% in more than 40 companies.
- There is significant difference in CAGR Return of Selected stock i.e. NIFTY50 companies' stock, on a monthly basis.
- Promoters' shareholding is having highest effect on the returns of the company.
- Shareholding pattern of the company is having huge impact on CAGR returns and performance.

## 8. CONCLUSION:

This paper has examined the impact of shareholding pattern on firm performance of Indian NIFTY-50 indexed companies. Ownership structure and its effects on firm performance are considered as one of the significant fundamental issues in corporate governance. The literatures related to the effect of ownership structure have concentrated more on firm performance. The objective of this paper is to examine the influence of shareholding pattern on risk and return on stock with respect to NIFTY 50.

All the NIFTY50 companies' promoter groups are major shareholders in most of the companies. Pledging of share are in very less percentage that is very good for any company. FIIs are having more percentage of shareholding in comparison to DII's, that is positive for any company. Others Shareholding which includes parties like Trusts, clearing members, Individual, NRI's, Custodian, etc. are having very a smaller number of shareholdings which is good for companies because of less interfere in management. Insurance company holds maximum of 18% in any company from the NIFTY50. Mutual funds are only up to 10% in most of the companies from the NIFTY50 companies.

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