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An Insight into Decision Making Behaviour of Different Classes of Shareholders in Indian Stock Market

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ABSTRACT: The study has been conducted to examine the decision making behaviours of different classes of investors in a company. For the purposes of study, six companies have been drawn from three broad sectors namely Automobile sector, Pharmaceutical sector and Iron and Steel sector and their ten years results have been analyzed. Regression analysis and coefficient of variation have basically been applied along with other statistical tools to test the intensity of relationship. Key findings included that each class of shareholder adopts different strategies for investment based on its own analysis and availability of information. FIIs, DIIs and promoters are active investors while Indian public is a passive investor. Whereas FIIs focus more on short term profit booking, DIIs invest on long term basis based on future prospects of the company. Further, in case of growth company, shareholders are enthusiastic about more earnings whereas in declining company even increase in earnings is not immediately absorbed in its market prices.

KEY WORDS: FII, DII, EPS and MPS

JEL CLASSIFICATION: G02, G14, G23

I. INTRODUCTION

Shareholding pattern in a company reflects the share of ownership of different classes of shareholders. In case of listed companies, the shareholding pattern is required to be disclosed on quarterly basis. The four broad classes of shareholders in a company are promoters, Foreign Institutional Investors (FIIs), Domestic Institutional Investors (DIIs) and retail investors. Promoters are a group of persons who has played key role in the incorporation of the company. They may be domestic or international and friends, relatives of the key promoters, both institutional and non-institutional. As a general rule increase in promoter shareholding is taken positively by the potential investors because it shows promoter's confidence in their own business. Foreign Institutional Investors (FIIs) are big institutional investors from abroad who invest in the different countries in a well diversified manner with the basic objective of making money. Increase in shareholding by FIIs is normally taken as an indication of rise in market price per share. Domestic institutional investors (DIIs) include Banks, Mutual funds, Insurance companies and other institutional domestic players. Retail investors form their investment strategies based on strategies of other shareholders. FIIs, DIIs and promoters are thus active investors while Indian public is a passive investor.

II. RELATED WORK

Hemkant Kulshrestha et al. 2014, examined the relationship between Foreign Institutional Investment in India and Indian stock market and concluded that FIIs have positive impact over Indian stock market. Further, Ajay Shah et al. 2008, investigated into the behavior of FIIs and DIIs. They concluded that both prefers a wide dispersed firm and do not chase returns. He also added that investment behaviours of both these investors are quite different. Another study conducted by Rao et al. 1999, studied about impact of FII's investment in the Indian stock market and concluded that FIIs significantly affect the Indian stock market.

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In similar lines, Sashikala P. and Girish G. P. et al. 2015 evaluated the factors affecting the trading behavior of individuals, they argued that market price per share plays an important role in their investment decisions. Muhammad Anhar et al. 2015, stressed that two factors namely investors' expectation and investment risk have direct influence on Individual Stock Price Index. Further, Arup Kumar Sarkar and Dr. Tarak Nath Sahu et al. 2017 examined the factors that influence decision behavior of investors, they came with the conclusion that investors in the stock market are significantly influenced by their demographic factors and Perceived Risk Attitude.

On the EPS and MPS side ,Dr. Pushpa Bhatt and Sumangala JK et al. 2012, examined whether earnings per share impacts market price share or not. They concluded that EPS impacts the market value of an equity share in the Indian context. Further EPS can explain on an average about 45% of variation in market value of equity. K. Hemadivya and Dr V. Rama Devi et al. 2013 evaluated the relationship between market price and earnings per share. They stressed that the earnings per share in not the only factor affecting market price per share but there are other factors too that impact market price per share.

On the behavioural side Ms. Kavita Shah et al. 2014 investigated into the reasons for which investors behave irrationally. She concluded that investors behave irrationally because of several reasons like, lack of information, overconfidence fear of loss and so on. Further, S. Ashwin and Aishwarya Kalyanshetti et al. 2014, examined as to what behavioural characteristics ultimately results into actual investment decisions. They concluded that it is the financial awareness which leads to creation of certain perceptions which ultimately turn out to be actual investment actions and decisions. On similar lines Soufeljil, Sghaier, Kheireddine and Mighri et al. 2016, examined as to whether ownership of institutional investors impact the performance of the company. They stressed that there occurs a very positive effect of institutional ownership on performance of the company

III. PURPOSE OF THE STUDY AND METHODOLOGY

This paper basically evaluates firstly whether earnings per share (EPS) affect the shareholding pattern in a company and finally whether shareholding pattern of a company impacts its market price per share (MPS). For the purposes of study, six companies have been drawn from three broad sectors and their ten years results have been analyzed. Regression analysis and coefficient of variation have basically been applied along with other statistical tools to test the intensity of relationship between the data. For the purposes of study all six companies have broadly be classified into three categories:

- a) **Growth company:** Where price earnings ratio of financial year 2016-17 is greater than 20
- b) **Normal company:** Where earnings reported in the financial year 2016-17 are positive but price earnings ratio is up to or less than 20
- c) **Declining company:** Where negative earnings have been reported for the financial year 2016-17

IV. DATA TESTING AND ANALYSIS

1. Company wise shareholding pattern

- 1.1. **Automobile sector:** In the Automobile sector two reputed Indian companies are Maruti Suzuki and Tata Motors. Whereas in the Maruti the promoter's shareholding has been increased from 54.21% to 56.21%, The FII's share holding from 15.7% to 24.55% in last ten years, DII's share holding has come down from 15.14% to 12.27% [Figure-1]. Tata Motors has witnessed downfall in promoter's share holding from 41.73% to 29.54%, FII's shareholding from 16.96% to 3.49%. As far as DII's shareholding is concerned, it has increased from 17.44% to 17.72% [Figure-2]

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Figure-1: Shareholding pattern in Maruti Suzuki

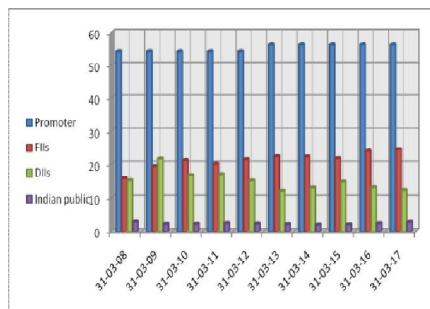
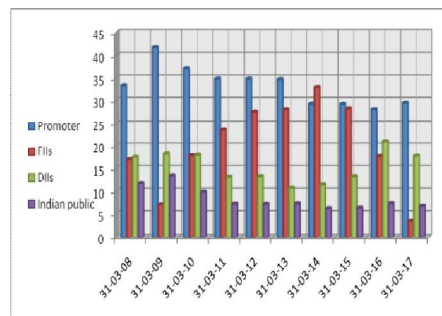


Figure-2: Shareholding pattern in Tata Motors



1.2. Pharma Sector

Pharma sector is showing declining trend due to factors such as strict regulations and frequent enquiries by US FDS and restrictions on pricing policies and other unfavorable global scenario. Sun Pharma and Aurobindo Pharma are two big players in the pharma industry. Promoter's shareholding in Sun Pharma has come down from 63.78% to 54.39% but FII's share holding has increased from 10.26% to 21.76%. Whereas DII's shareholding increased from 3.48% to 12.14%, public shareholding has come down from 14.6% to 6.93% (Figure-3). In Aurobindo Pharma promoter's shareholding decreased from 55.29% to 51.87%, FII's shareholding from 25.4% to 20.99% in last ten years. However, DII's shareholding has increased from 5.63% to 12.76% and public shareholding from 8.77% to 10.79% [Figure-4]

Figure-3: Shareholding pattern in Sun Pharma

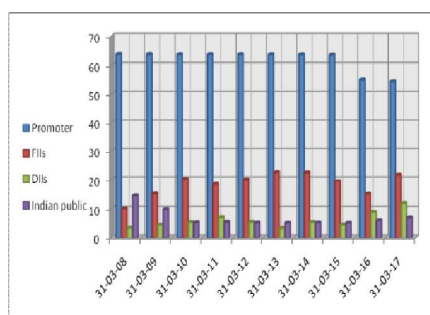
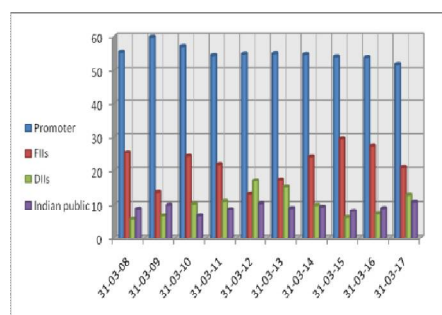


Figure-4: Shareholding pattern in Aurobindo Pharma



1.3. Steel Sector

Tata Steel and JSW steel are two domestic legend players in the steel sector in India. In Tata Steel, promoter's shareholding has come down from 33.94% to 31.35%, FII's shareholding decreased from 19.48% to 14% and public shareholding from 21.49% to 19.84%. However, DII's shareholding increased from 25.9% to 30.36% in last ten years [Figure-5]. In the JSW Steel promoter's shareholding has come down from 46.99% to 41.62%, FII's shareholding decreased from 26.38% to 19.95%, DII's shareholding from 6.7% to 1.39%, while the public shareholding increased from 9.13% to 10.79% in last ten years [Figure-6].

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Figure-5: Shareholding pattern in Tata Steel

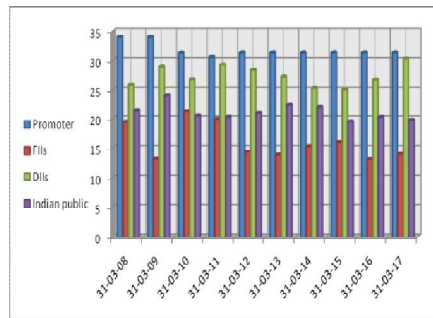
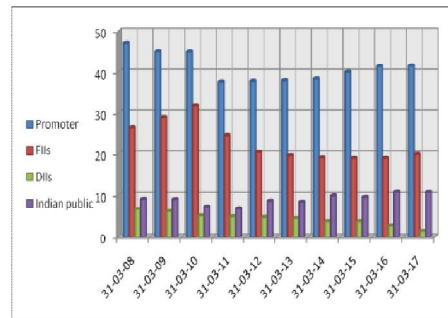


Figure-6: Shareholding pattern in JSW Steel



2. Category wise shareholding pattern

2.1. Promoter’s shareholding.

Maruti Suzuki is having highest promoter’s shareholding in 2016-17 among all six companies. However, ten years back, i.e. in 2007-08, Sun Pharma had commanded highest promoter’s shareholding. Whereas in Maruti promoter’s shareholding is chronologically increasing, in all other five companies, it has shown down fall. Among all six companies, Maruti commanded highest P/E Ratio of 26.83 on 01-04-2017 while Aurobindo Pharma stood second with P/E Ratio 20.80 and Tata Steel third with P/E Ratio 13.34. Coefficient of variation of promoter’s contribution is the least in Maruti and thereafter Tata Steel, which reflects that promoters of these companies are more confident about the growth of their companies in the last ten years [Figure-8].

Figure-7: Promoter’s shareholding in all six companies

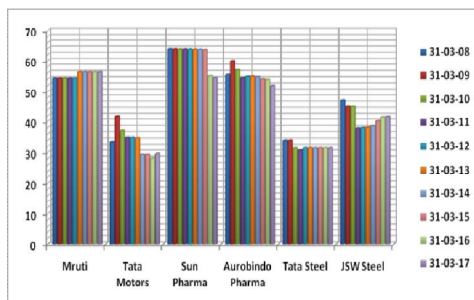
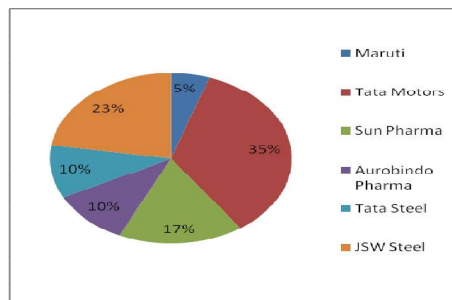


Figure-8: Coefficient of variation in Promoter’s shareholdings of all six companies



2.2. FII’s shareholding

Maruti is leading with highest FII’s shareholding of 25.55% in 2016-17 and Sun Pharma is standing at the second position with FII’s shareholding of 21.76% among all six companies. However, growth rate in FII’s share holding is the highest in Sun Pharma. Tata motors is having lowest FII’s shareholdings among all six companies. Out of the six companies, in Maruti FII’s shareholding is chronologically increasing their shareholding year after year [Figure-9]. As far as consistency is concerned, FIIs shareholding is more consistent in Maruti and Tata Steel than other four companies [Figure-10]

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Figure-9: FII's' shareholding in all six companies

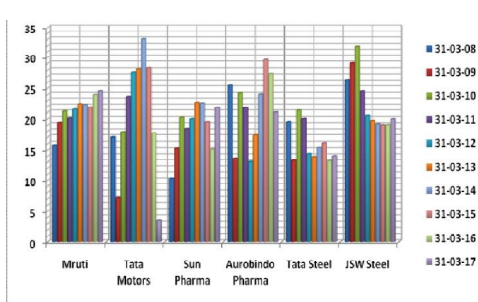
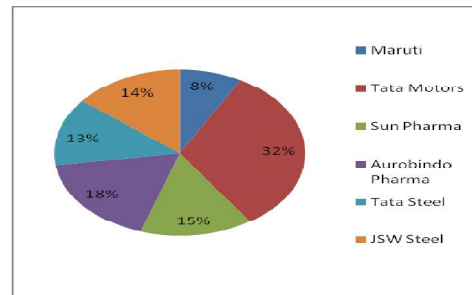


Figure-10: Coefficient of variation in FII's shareholdings of all six



2.3. DII's Shareholding

Tata Steel has commanded highest shareholding of DIIs with 30.36% shareholding and Tata Motors at the second position with 17.72% and JSW with the lowest shareholding of 1.39% in the year 2016-17. However, highest growth rate of 126% in shareholding of DII's has been in Sun Pharma in the last ten years [Figure-11] Further, DII's shareholding has been more consistent in Tata Steel as compared to others five selected companies [Figure-12].

Figure-11: DII's shareholding in all six companies

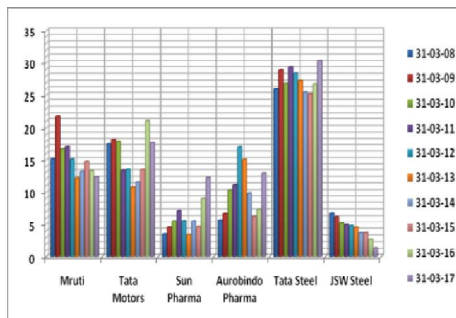
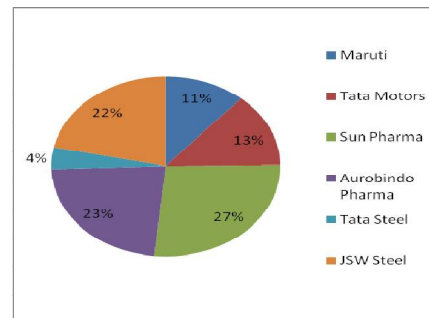


Figure-12: Coefficient of variation in DII's shareholdings of all six companies



2.4. Indian public shareholding

Tata Steel commands highest shareholding of Indian Public with 19.84% and Maruti with lowest with shareholding of only 2.79%. However, highest growth rate of Indian public shareholding has been seen at Aurobindo Pharma in last ten years [Figure-13]. The shareholding pattern of Indian public has been more consistent in Tata Steel [Figure-14].

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Figure-13: Indian public's shareholding in all six companies

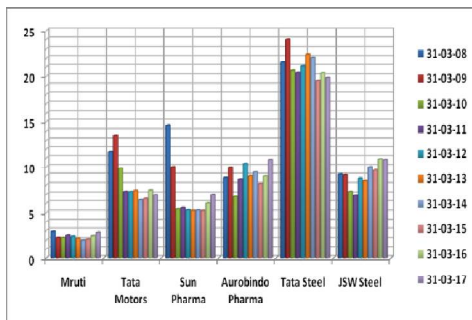
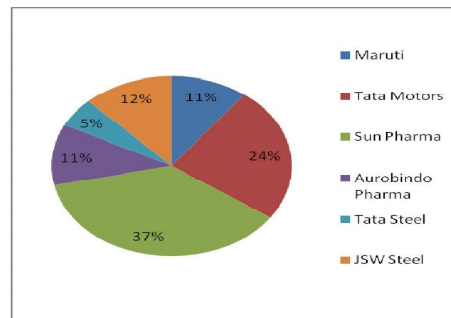


Figure-14: Coefficient of variation in Indian public's shareholdings of all six companies



III. STUDYING THE IMPACT OF EPS OVER SHAREHOLDING PATTERN

3.1 Testing the relation between EPS and Shareholding pattern at 95% confidence level

H0: There is no relation between EPS and Shareholding pattern

H1: EPS impacts the shareholding pattern

Table-1: Maruti Suzuki

Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.65	0.43	.0037	Accept
FII's	0.71	0.51	0.071	Reject
DII's	0.57	0.33	0.081	Reject
Indian Public	0.31	0.10	0.36	Reject

Table-2: Tata Motors

Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.54	0.29	0.10	Reject
FII's	0.27	0.07	0.44	Reject
DII's	0.38	0.14	0.27	Reject
Indian Public	0.78	0.61	0.007	Accept

Table-3: Sun Pharma

Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.39	0.15	0.25	Reject
FII's	0.12	0.014	0.73	Reject
DII's	0.24	0.05	0.50	Reject
Indian Public	0.016	0.0002	0.96	Reject

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Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.52	0.27	0.11	Reject
FII's	0.67	0.45	0.03	Accept
DII's	0.21	0.04	0.54	Reject
Indian Public	0.16	0.02	0.64	Reject

Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.23	0.05	0.52	Reject
FII's	0.44	0.19	0.19	Reject
DII's	0.23	0.05	0.50	Reject
Indian Public	0.29	0.08	0.41	Reject

Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.012	0.0001	0.97	Reject
FII's	0.22	0.05	0.53	Reject
DII's	0.14	0.02	0.68	Reject
Indian Public	0.42	0.17	0.22	Reject

3.2 Test Results

- In case of **Maruti** , P-value obtained is .0037 for deciding relationship between the Promoter's shareholding and EPS. So, Null hypothesis is rejected and the correlation of 0.65 is reliable to the extent of 43%.
- In case of **Tata Motors**, P-value obtained is 0.007 for deciding relationship between **Indian public shareholding** and **EPS**. So, Null hypothesis is rejected and the correlation of 0.78 is reliable to the extent of 61%.
- In case of **Aurobindo Pharma**, P-value obtained is 0.03 for deciding relationship between the **FII's shareholding** and **EPS**. So, Null hypothesis is rejected and the correlation of 0.67 is reliable to the extent of 45%.

IV. STUDYING THE IMPACT OF MPS OVER SHAREHOLDING PATTERN

3.3 Testing the relation between MPS and Shareholding pattern at 95% confidence level

HO: There is no relation between MPS and Shareholding pattern

H1: MPS impacts the shareholding pattern

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Table-7: Maruti Suzuki				
Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.69	0.48	0.02	Accept
FIIIs	0.71	0.53	0.016	Accept
DIIIs	0.54	0.30	0.10	Reject
Indian Public	0.22	0.05	0.52	Reject

Table-8: Tata Motors				
Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.88	0.77	0.0007	Accept
FIIIs	0.33	0.11	0.34	Reject
DIIIs	0.25	0.064	0.48	Reject
Indian Public	0.89	0.79	0.0004	Accept

Table-9: Sun Pharma				
Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.50	0.25	0.13	Reject
FIIIs	0.339	0.11	0.33	Reject
DIIIs	0.36	0.13	0.30	Reject
Indian Public	0.46	0.22	0.17	Reject

Table-10: Aurobindo Pharma				
Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.63	0.39	0.05	Accept
FIIIs	0.60	0.36	0.06	Reject
DIIIs	0.25	0.06	0.47	Reject
Indian Public	0.09	0.008	0.80	Reject

Table-11: Tata Steel				
Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.12	0.014	0.73	Reject
FIIIs	0.83	0.69	0.002	Accept
DIIIs	0.08	0.007	0.80	Reject
Indian Public	0.32	0.10	0.35	Reject

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Results	Multiple – R	R-Square	P-Value	Remarks (Accept or Reject null Hypothesis)
Promoters	0.092	0.008	0.79	Reject
FII's	0.06	0.004	0.84	Reject
DII's	0.02	0.0008	0.93	Reject
Indian Public	0.09	0.009	0.78	Reject

3.4 Test Results

- In case of **Maruti**, P-value obtained is 0.02 for deciding relationship between the **Promoter's shareholding** and **MPS**. So, Null hypothesis is rejected and the correlation of 0.69 is reliable to the extent of 48%.
- In case of **Maruti**, P-value obtained is 0.016 for deciding relationship between the **FII's shareholding** and **MPS**. So, Null hypothesis is rejected and the correlation of 0.71 is reliable to the extent of 53%.
- In case of **Tata Motors**, P-value obtained is 0.0007 for deciding relationship between the **Promoter's shareholding** and **MPS**. So, Null hypothesis is rejected and the correlation of 0.88 is reliable to the extent of 77%.
- In case of **Tata Motors**, P-value obtained is 0.0004 for deciding relationship between the **Indian public shareholding** and **MPS**. So, Null hypothesis is rejected and the correlation of 0.89 is reliable to the extent of 79%.
- In case of **Aurobindo Pharma**, P-value obtained is 0.05 for deciding relationship between the **Promoter's shareholding** and **MPS**. So, Null hypothesis is rejected and the correlation of 0.63 is reliable to the extent of 39%.
- In case of **Tata Steel**, P-value obtained is 0.002 for deciding relationship between the **FII's shareholding** and **MPS**. So, Null hypothesis is rejected and the correlation of 0.83 is reliable to the extent of 69%.

V. CONCLUSION

Each class of shareholder adopts different strategies for investment based on its own analysis and availability of information. Promoters may invest either to restore confidence or to gain from future rise of market price per share. The investment strategies of Foreign Institutional investors (FIIs) are more guided by short term profit booking and thus they more care present market price and earnings of the company rather than long term prospects of the company. Domestic Institutional investors (DIIs) normally focus on long term growth prospects of the company and thus take into consideration long term fundamentals of the company. Indian public is a passive investor and do not stick to any specific investment strategies. In case of growth company investors care both earnings per share and market per share. Thus, any increase in earnings per share is taken positively and aggressively and it is immediately reflected in the increased market price per share. In case of declining company, investors are suspicious about its future growth. Thus, any increase in earnings of such companies is taken conservatively and is not fully reflected and absorbed by market price per share. The normal company falls in between these two categories and depicts both aggressive and conservative behavior.

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