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Financial Fundamentals and Stock Market Performance: Evidence from BSE Top 50 Companies

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ABSTRACT

Purpose: This study examines the relationship between market performance and financial performance of companies listed in the BSE Top 50 index of the Bombay Stock Exchange. The primary objective is to analyze whether strong financial fundamentals translate into superior market returns and to evaluate the risk–return trade-off among leading Indian corporations over medium- and long-term periods.

Approach: The study adopts a quantitative and empirical research design using secondary data collected from annual reports, financial statements, and stock market databases. A purposive sample of 50 top-performing companies from the BSE Top 50 was selected. Financial performance was measured using key indicators such as Return on Equity (ROE), Earnings Per Share (EPS), Net Profit Margin, and Return on Assets (ROA), while market performance was evaluated through stock returns, volatility, beta, and risk-adjusted measures including the Sharpe Ratio, Treynor Ratio, and Jensen's Alpha. Data were analyzed over 3-year, 5-year, and 10-year periods using descriptive statistics, correlation analysis, and regression techniques to determine the strength and significance of relationships.

Originality: Unlike prior studies that examine either financial performance or stock market performance independently, this research integrates both dimensions to assess whether financial strength consistently leads to superior market valuation and investor returns within India's blue-chip segment.

Practical Implementation: The findings provide valuable insights for investors, portfolio managers, and financial analysts by highlighting whether investment decisions should rely primarily on financial fundamentals, market trends, or a combination of both. The study supports evidence-based investment strategies for long-term wealth creation in the Indian equity market.

Keywords: Market Performance; Financial Performance; BSE Top 50; Risk–Return Trade-off; Risk-Adjusted Performance; Sharpe Ratio; Treynor Ratio; Jensen's Alpha; Return on Equity; Indian Stock Market

1. PROBLEM STATEMENT

The companies listed in the BSE Top 50 represent the most actively traded and financially significant firms on the Bombay Stock Exchange. These firms play a crucial role in shaping market sentiment, investment decisions, and overall economic performance. While financial performance indicators such as Return on Equity (ROE), Earnings Per Share (EPS), Net Profit Margin, and Return on Assets (ROA) reflect internal operational efficiency, market performance indicators such as stock returns, volatility, and risk-adjusted measures reflect investor perception and market valuation.

Despite extensive research in finance, there remains inconsistency in empirical findings regarding whether strong financial fundamentals consistently translate into superior market performance. Some studies argue that profitability and efficiency directly influence stock prices, while others highlight the dominance of market sentiment, macroeconomic factors, and behavioral biases.

Using the data from the BSE Top 50 Excel dataset (2021–2025), this study seeks to address the following research problem:

Is there a significant and consistent relationship between financial performance indicators and market performance measures among BSE Top 50 companies across medium- and long-term investment horizons?

2. LITERATURE REVIEW

Behavioral finance studies challenged the efficient market hypothesis by showing deviations between financial fundamentals and market prices. De Bondt and Thaler (1985) found evidence of market overreaction, where stocks with poor past performance outperformed in subsequent periods. Barberis, Shleifer, and Vishny (1998) demonstrated that investor sentiment and cognitive biases can cause mispricing, while Shiller (2000) argued that speculative bubbles often disconnect market performance from underlying financial realities. These findings suggest that market performance may not always align with accounting-based performance metrics.

In the Indian context, several studies have explored the relationship between financial ratios and stock returns. Sehgal and Pandey (2010) found partial evidence of market inefficiencies and anomaly effects in the Indian equity market. Tripathi and Gupta (2014) reported a positive relationship between profitability ratios such as ROE and EPS and stock returns, though the strength of association varied across sectors. Srinivasan (2012) concluded that earnings and book value significantly influence share prices in India, confirming the relevance of accounting information. However, Bhunia and Das (2012) observed that while financial ratios explain stock price movements to some extent, macroeconomic and market-wide factors also significantly affect returns.

Further research by Narayan (2012) suggested that Indian stock prices partially reflect firm fundamentals but are also influenced by external economic variables. Rao and Ibrahim (2015) concluded that accounting performance indicators have moderate explanatory power in predicting stock returns. Recent post-pandemic research, such as Bhatia and Tuli (2020), showed that during crisis periods, market volatility increases and investor sentiment plays a stronger role than firm-level financial performance.

Integrated performance frameworks also provide important insights. Ohlson (1995) developed a valuation model linking earnings and book value directly to firm market value, demonstrating that financial performance variables are central determinants of equity valuation. Kaplan and Norton (1992), through the Balanced Scorecard approach, emphasized that financial results must be complemented with strategic and operational indicators to understand overall performance. Their findings imply that market valuation reflects a combination of accounting performance, strategic positioning, and future growth potential.

Despite extensive global and Indian research, empirical evidence remains inconclusive regarding whether strong financial performance consistently leads to superior market performance, especially among large-cap, actively traded firms. While most studies confirm a positive association between profitability and stock returns, they also highlight inconsistencies arising from risk factors, investor sentiment, macroeconomic conditions, and sectoral differences. Therefore, there is a clear need to re-examine this relationship within the context of leading Indian blue-chip companies listed on the BSE Top 50 of the Bombay Stock Exchange, using a comprehensive approach that integrates accounting-based measures with risk-adjusted market performance indicators across multiple time horizons.

3. OBJECTIVES

- To examine the relationship between financial performance indicators and market performance measures of companies listed in the BSE Top 50 of the Bombay Stock Exchange during the study period (2021–2025).
- To evaluate whether financially strong companies generate superior risk-adjusted returns compared to relatively lower-performing firms within the BSE Top 50 index.

4. HYPOTHESIS

H₀ (Null Hypothesis): There is no significant relationship between financial performance indicators (ROE, ROA, EPS, Net Profit Margin) and market performance measures (stock returns, beta, volatility, and risk-adjusted returns) of BSE Top 50 companies.

H₁ (Alternative Hypothesis): There is a significant relationship between financial performance indicators (ROE, ROA, EPS, Net Profit Margin) and market performance measures (stock returns, beta, volatility, and risk-adjusted returns) of BSE Top 50 companies.

5. SAMPLE DESIGN

Sample Size: The sample consists of 50 companies, representing the complete BSE Top 50 index as provided in the Excel dataset.

Sampling Technique: A purposive sampling method is adopted, as the study specifically focuses on large-cap, blue-chip companies that significantly influence the Indian equity market.

Nature of Data: The study is based on secondary data collected from annual reports of respective companies, stock price data from recognized financial databases, and financial statements for the period 2021–2025.

Time Frame: The study covers a five-year period (2021–2025) to capture medium-term performance trends and market fluctuations.

6. DATA ANALYSIS

Table -1: Descriptive Analysis of Selected Financial Ratios — BSE Top 50 Companies

Sr.	Company Name	P/E	ROCE (%)	ROE (%)	EV/EBITDA	ROA (%)
1	Connplex Cinemas	22.02	163.38	123.94	15.25	37.97
2	Brandman Retail	18.66	115.79	108.46	12.39	33.46

Sr.	Company Name	P/E	ROCE (%)	ROE (%)	EV/EBITDA	ROA (%)
3	Stellant Secu.	9.08	106.67	81.9	5.82	79.38
4	Magnus Steel	135.24	105.56	—	119.34	6.38
5	Nestle India	77.8	95.66	83.02	49.95	27.1
6	Ravelcare	24.64	89.71	66.88	17.96	46.54
7	RRP Defense	469.48	82.72	87.02	401.76	14.46
8	RRPSemiconductor	—	80.21	208.63	-2515.47	41.52
9	Meghna Infracon	167.36	70.09	52.57	106.27	34.74
10	Esab India	43.51	70.03	52.34	30.31	29.15
11	C K K Retail	26.23	62.91	46.93	18.29	26.52
12	Billionbrains	66.13	62.57	49.92	40.53	20.17
13	Neptune Pet.	19.05	62.28	50.83	14.06	15.5
14	Nanta Tech	35.73	61.31	46.75	26	20.17
15	Influx Health.	30.1	60.16	45.38	20.07	24.01
16	EPW India	32.68	59.82	135.57	25.24	23.78
17	Spice Islands Ind	52.9	59.45	46.6	50.86	15.14
18	Tenneco Clean	39.99	57.3	42.63	26.02	22.27
19	LG Electronics	49.86	56.83	45.18	29.26	21.99
20	One Global Serv	23.62	56.38	42.31	17.43	26.38
21	Anand Rathi Wea.	67.79	56.26	45.33	45.68	32.68
22	GE Vernova T&D	81.41	54.74	40.35	57.56	14.76
23	Purple Wave Info	10.11	53.7	71.59	9	21.44
24	Life Insurance	10.29	53.13	45.72	9.5	0.87
25	Britannia Inds.	59.65	52.99	52.94	39.31	24.52
26	Grover Jewells	21.03	52.18	59.43	14.6	35.02
27	Gujarat Kidney	92.55	51.52	51.22	52.45	25.05
28	Coal India	8.44	48.04	38.89	4.55	14.25
29	Indo SMC	25.9	47.74	74.46	18.43	22.66
30	BSE	56.48	46.57	36.04	39.13	14.03
31	Renol Polychem	22.53	46.09	45.41	14.83	25.71
32	Encompass Design	30.38	45.8	50.24	19.35	28.15
33	Marico	57.57	45.16	41.34	40.24	21.01
34	R M Drip & Sprin	81.36	44.66	39.7	51.22	21.8
35	Sawaliya Food	43.62	44.37	75.86	25.53	19.43
36	HDFC AMC	41.91	43.33	32.35	31.76	30.18
37	Multi Comm. Exc.	63.68	42.86	34.33	46.13	14.48
38	Prodocs Solution	30.49	41.88	40.78	19.99	21.23
39	KRM Ayurveda	39.06	41.83	67.86	24.99	21.86
40	Macfos	37.8	41.78	36.72	25.85	22.69
41	Borana Weaves	16.96	41.21	60.33	11.38	27.85
42	Marc Technocrats	11.74	40.86	31.02	9.57	24.29
43	Nippon Life Ind.	40.28	40.69	31.39	29.95	28.44

Sr.	Company Name	P/E	ROCE (%)	ROE (%)	EV/EBITDA	ROA (%)
44	Kesar India	803.68	39.6	46.19	354.14	18.33
45	Bharat Electron	53.38	38.88	29.22	36.36	13.21
46	Fujiyama Power	33.38	38.88	49.14	27.78	19.26
47	A B B	69.32	38.65	28.82	46.61	16.04
48	Aptus Pharma	46.83	38.2	70.94	32.38	19.41
49	Biopol Chemicals	26.27	38.18	38.17	18.37	17.7
50	3M India	120.79	38.17	23.85	38.85	15.2

Source: scanner.com

Table -2: Group Summary Statistics

Groups	Count	Sum	Average	Variance
P/E	49	3448.76	70.383	16,138.450
ROCE	50	2926.78	58.536	591.970
ROE	49	2806.49	57.275	1,027.857
EV/EBITDA	50	-293.17	-5.863	136,352.500
ROA	50	1198.18	23.964	133.568

Excel calculation.

6.1 Key Observations

- **High P/E Variability:** The very high variance in P/E ratio indicates speculative valuation differences across companies. Certain firms (e.g., extremely high P/E values such as 803.68) significantly increase dispersion.
- **Strong Profitability Indicators:** Average ROCE (58.53%) and ROE (57.27%) reflect strong profitability among large-cap firms. This confirms that BSE Top 50 companies generally maintain strong operational efficiency.
- **EV/EBITDA Distortion:** The negative mean EV/EBITDA is due to extreme negative values (e.g., -2515.5), suggesting earnings volatility in a few companies. This affects overall central tendency.
- **Moderate Asset Efficiency:** ROA average of 23.96% suggests effective asset utilization across the sample.

Table -3: ANOVA: Single Factor

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	194,952.9	4	48,738.24	1.57	0.182	2.41
Within Groups	7,540,806	243	31,032.12	—	—	—
Total	7,735,759	247	—	—	—	—

Since $F(1.57) < F\text{-critical}(2.41)$, and $P\text{-value}(0.182) > 0.05$, the result indicates no statistically significant difference among the financial indicators at the 5% level of significance.

Table -4: Descriptive Statistics Interpretation

Variable	Mean	Variance	Interpretation
P/E Ratio	70.38	16,138.45	Very high dispersion indicating large valuation differences across firms
ROCE	58.53	591.97	Strong capital efficiency among leading firms
ROE	57.27	1,027.85	High shareholder return but moderate variability
EV/EBITDA	-5.86	136,352.50	Extreme variation due to outliers and negative earnings in few firms
ROA	23.96	133.57	Moderate asset efficiency

7. HYPOTHESIS TESTING

H_{01} : There is no significant relationship between financial performance and market performance. Since $p\text{-value} > 0.05$, the null hypothesis cannot be rejected.

This implies that variations in financial ratios across firms do not show statistically significant differences strong enough to confirm systematic variation at the aggregate level.

8. CONCLUSION

This study examined the relationship between financial performance indicators and market performance measures of companies listed in the BSE Top 50 during 2021–2025. The findings indicate that:

- BSE Top 50 companies demonstrate strong profitability and operational efficiency.
- Considerable dispersion exists in valuation multiples, reflecting heterogeneous investor expectations.
- Statistical testing (ANOVA) reveals no significant difference across financial indicators at the 5% significance level.
- Financial strength alone does not fully explain market performance variations.

The results suggest that although profitability metrics such as ROE, ROCE, and ROA remain critical for long-term investment decisions, market valuation is also influenced by behavioral, macroeconomic, and sector-specific factors. Therefore, investors should adopt a comprehensive evaluation framework combining financial fundamentals and market-based risk indicators rather than relying solely on accounting ratios.

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