



Impact of Firm-Specific Financial Factors on the Share Price of Infosys: An Empirical Analysis

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Abstract – The Indian IT sector is important for both countries' economic growth and the global digital revolution. The Indian IT sector is a world leader in digital transformation, outsourcing, and software services, and it helps other businesses by increasing digital adoption and efficiency. The valuation of an IT company is closely linked to its share price, which is affected by several factors. This study examines the key firm-specific financial factors influencing share prices of Infosys in India. Firm-specific indicators, such as basic earnings per share (EPS), price to net operating revenue ratio, total revenue, and net operating cash flow, are evaluated for their impact on stock performance. This analysis uses secondary data from multiple sources cover the last ten years, from 2014 to 2024. Multiple regression analysis was used to examine how independent variables affect the dependent variable. Basic EPS has the greatest overall influence on the closing share price, but other financial measures such as Net Operating Cash Flow, Price to Net Operating Revenue Ratio, and Total Revenue have a smaller or insignificant effect. The results can help investors, policymakers, and financial analysts make judgments about Indian IT companies by shedding light on the effects of firm-specific and macroeconomic factors on these companies' share prices.

Keywords: IT sector, Stock prices, Firm-specific factors.

Introduction

The economic growth of a nation is significantly influenced by its stock market, which serves as an indicator of investor sentiment and corporate performance, and acts as a barometer for business success and investor attitudes. The valuation of a company's stock is affected by numerous factors ranging from macroeconomic indicators to firm-specific financial metrics. While external factors, such as interest rates, inflation, and market volatility, impact stock prices, firm-specific financial performance remains the primary driver of investor confidence and market value. Among these, financial ratios and performance metrics, including net operating cash flow, price-to-net operating revenue ratio, total revenue, and basic earnings per share (EPS), are widely recognized as critical determinants influencing fluctuations in stock prices. (Al- Shubiri, 2010)



Infosys, a leading global provider of technological services headquartered in India, have been a significant entity in the stock market, attracting both international and domestic investors. Given the dynamic nature of the technology sector and evolving financial landscape, it is imperative for investors, analysts, and policymakers to understand the relationship between firm-specific financial factors and stock price fluctuations. Various performance metrics are commonly employed to assess a company's financial health, and their impact on stock prices provides critical insights into corporate strategies and investment decisions.([Machuga et al., 2002](#))

This study investigates the impact of specific firm-related financial factors on the share prices of Infosys. The study finds that certain financial variables significantly influence stock price fluctuations, while others exert minimal impact. It specifically examines the roles of basic earnings per share (EPS), price-to-net operating revenue ratio, total revenue, and net operating cash flow in explaining variations in the price of Infosys' shares. This research seeks to provide empirical evidence on the extent to which these financial factors affect stock valuation through quantitative analysis.([Sulehri et al., 2023](#)) ([Devereux & Schiantarelli, 1989](#)) ([Susanto et al., 2021](#)) ([Décamps et al., 2011](#))

The findings of this study are expected to contribute to the existing body of knowledge on stock market behavior and financial performance. Data-driven insights offered on the impact of fundamental financial factors on stock prices will be valuable to investors, financial analysts, and corporate decision-makers. Furthermore, an enhanced understanding of these relationships can facilitate refinement of investment strategies, valuation models, and corporate financial decision-making processes([Shen, 2024](#)) .

Literature Review:

Dima, B., Dima, S. M., Saramat, O., and Angyal, C. (2013) This empirical study analyzed the impact of various measures on the stock prices of companies listed in the FTSE 100, CAC 40, DAX, and OMX indices from 2003 to 2011. This study examines the relationship between financial ratios and stock prices and reveals the positive influence of these financial indicators on European stock prices. These findings suggest that financial structure and profitability contribute significantly to stock market performance. This study offers valuable insights into the relationship between stock values in major European markets and financial health, with implications for the movement of stock prices in China's financial market.

Subastyan, G. M. (2024) The study conducted an empirical investigation into the influence of financial ratios on stock prices. It underscores the significance of key elements, including the debt-to-equity ratio, return on assets, earnings per share, price-earnings ratio, and current ratio. These findings reinforce the notion that



financial statement analysis is crucial in forecasting stock price changes and support the idea that investors consider these financial indicators when making decisions in the stock market.

Kuntamalla, V. R., & Maguluri, K. J. (2023) The study examines the influence of financial ratios on the stock prices of manufacturing firms in India. The findings indicate that stock prices exhibit a positive and significant correlation with both the market value of equity to total liabilities and the EBITDA to total assets. This research contributes to the understanding of how financial structure and firm profitability affect stock performance in India's manufacturing sector, which is crucial for the nation's economic development.

Arkan, T. (2016) The study focused on the importance of financial parameters in predicting stock price fluctuations in emerging markets. They concluded that financial ratios derived from financial statements are crucial for forecasting stock price changes. This conclusion was reached through statistical analysis of the predictive potential of 12 financial ratios across 15 companies in the three sectors. These findings indicate that financial ratios serve as reliable indicators for investors and financial analysts in emerging markets to make informed investment decisions.

Loke, S. P. (2017) This study evaluates the influence of financial ratios and technical analysis on stock price predictions through the application of random forests. By employing this machine learning technique on quarterly financial ratio data from Hong Kong companies spanning the period from 2011 to 2014, this research demonstrated that the accuracy of price prediction was enhanced when financial ratios were combined with technical analysis indicators. The findings offer empirical evidence that supports the integration of traditional financial analysis with contemporary computational methods to improve stock market forecasting.

Dlotko, P., Mroczkowski, T., & Skrzat, A. (2019) The study re-evaluated the relationship between financial ratios and stock returns. These results demonstrate that financial ratios do not consistently exert a clear or linear influence on stock performance. This finding implies that investors might leverage this information in portfolio management and in the formulation of investment strategies.

Ma, L., Ausloos, M., Schinckus, C. and Chong, H. L. F. (2018) This study empirically examined the relationship between Chinese stock prices and financial ratios. This study analyzed 25 financial factors across 60 Chinese listed companies in the steel, power, and media sectors from 2011 to 2015, demonstrating that fundamental analysis serves as a valuable tool for investment during periods of economic transformation. The findings indicate that accounting data can provide significant insights into stock valuations and accurately reflect economic realities. This study underscores the impact of firm fundamentals and financial transparency on stock price movements in China's dynamic financial markets.



Research methodology

Objectives of the Research

- To examine the relationship between Basic Earnings Per Share (EPS) and the share price of Infosys.
- To evaluate the influence of Price to Net Operating Revenue ratio on the share price of the Infosys company.
- To assess the effect of Total Revenue on the share price of Infosys.
- To investigate the role of Net Operating Cash Flow in determining the share price of Infosys.

Hypothesis of the Study

This study proposes the following hypotheses to analyze the influence of various firm-specific factors on the share prices of Infosys.

H0: Basic earnings per share (EPS) factor has no significant impact on the share price of Infosys.

H1: The basic earnings per share (EPS) factor has a significant impact on the share price of Infosys.

H0: -There is no significant impact of Price to net operating revenue ratio factor on share price of Infosys company.

H1: Price has a significant impact on the net operating revenue ratio factor of the share price of the Infosys company.

H0: There is no significant impact of the Total Revenue factor on the share price of Infosys.

H1: The Total Revenue factor has a significant impact on the share price of Infosys.

H0: There is no significant impact of the Net Operating Cash flow factor on the share price of Infosys.

H1: The Net Operating Cash flow factor has a significant impact on the share price of Infosys.



Data and methodology

The research utilized secondary data sourced from official websites such as NSE, BSE, Yahoo Finance, Money Control, and Infosys Ltd., as well as reports from the Ministry of Electronics and IT and various academic journals. This study analyzed data spanning the past decade, from 2014 to 2024, to identify long-term trends and market fluctuations in the share price of Infosys Ltd. (Susanto et al., 2021)

Analytical tools of the study

A multiple regression analysis model was employed to assess the impact of the independent variables—basic earnings per share (EPS), debt-to-equity ratio, price-to-net operating revenue ratio, total revenue, and net operating cash flow—on the dependent variable, which is the share price of Infosys Ltd. For share price, the closing price of the Infosys share at the end of the fiscal year was considered. (Hakim et al., 2023)

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	0.892	0.795	0.659	275.5653905		
a. Predictors: (Constant), Net Operating Cash flow, Price to net operating revenue ratio, Basic EPS, Total Revenue						
ANOVA						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	1769896.458	4	442474.115	5.827	0.029
	Residual	455617.707	6	75936.284		
	Total	2225514.165	10			
a. Dependent Variable: Closing Share price						
b. Predictors: (Constant), Net Operating Cash flow, Price to net operating revenue ratio, Basic EPS, Total Revenue						



Coefficients						
Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.		
	B	Std. Error	Beta			
1	(Constant)	-395.913	497.505		-0.796	0.456
	Basic EPS	9.009	2.36	0.82	3.817	0.009
	Price to net operating revenue ratio	-9.358	103.133	-0.021	-0.091	0.931
	Total Revenue	-3.593e-10		-0.275	-0.492	0.64
	Net Operating Cash flow	8.984e-9		1.208	1.96	0.098
a. Dependent Variable: Closing Share price						

Result interpretation

The regression analysis results reveal that the model accounts for approximately 79.5% ($R^2 = 0.795$) of the variance in closing share prices, indicating a strong model fit. The ANOVA table presents a significant F-statistic (5.827, $p = 0.029$), demonstrating that the overall model was statistically significant. Among the predictors, Basic EPS exerts a strong and significant positive effect on closing share price ($B = 9.009$, $p = 0.009$), suggesting that an increase in EPS corresponds to a higher share price. Net Operating Cash Flow also exhibits a positive influence ($B = 8.984E-009$, $p = 0.098$), albeit with less statistical significance. Other variables, such as the Price to Net Operating Revenue Ratio ($B = 9.358$, $p = 0.931$) and Total Revenue ($B = -3.593E-010$, $p = 0.640$), did not demonstrate statistically significant effects on the closing share price ($p > 0.05$), indicating a weaker influence on stock price movements. According to the model, Basic EPS has the most substantial overall impact on the closing share price, while other financial measures, including net operating cash flow, price-to-net operating revenue ratio, and total revenue, exhibit a smaller or insignificant effect.



Limitations of the Study

This study is confined to Infosys companies within the IT sector in India, focusing ([Lamba et al., 2021](#)) exclusively on firm-specific factors despite the influence of macroeconomic factors, investor sentiment, and events on share prices. Only the selected financial variables are examined, although other potential variables also impact the share price of Infosys Ltd. The research is based on a fixed period from 2014 to 2024, which may not encompass long-term trends related to Infosys Ltd. This investigation relied on secondary data sourced from official websites and published reports, which were not specifically adjusted for this study.

Conclusion

This study examines the influence of firm-specific financial factors on the share price of Infosys Ltd., with a particular focus on Basic Earnings Per Share (EPS), the Price to Net Operating Revenue Ratio, Total Revenue, and Net Operating Cash Flow. The results indicate that Basic EPS exerts a significant positive impact on share prices, whereas other variables exhibit weaker or negligible effects. This finding underscores the critical role of earnings performance in stock valuation. However, this study is confined to Infosys within the Indian IT sector and does not consider macroeconomic factors. Future research can broaden this scope to encompass multiple firms and a wider range of financial indicators. These insights are valuable for investors, analysts, and corporate strategists in refining investment decisions and financial planning.

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