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An Empirical Study of the Relationship between Value Added and Stock Price of Firms in Indian Stock Market

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Abstract

In a quest to devise exotic measures of value of the firm, the literature has often ignored an important fundamental and profound indicator of the firm value which is value added. Value added can be regarded as the simplest but one of the most important accounting measures of economic activity. The present study aims at examining the predictive power of cash value added as one of the determinants of market value by analyzing the relation between the value added and the stock price. A sample of 50 firms from CNX Nifty is selected for the analysis. The calculation of value added is for the period of 12 years from 2001-02 to 2013-14. The results of correlation and regression analysis show statistically significant explanatory power of net value added when used as a separate indicator. However, the additive power of the net value added as an indicator along with Earnings Per Share (EPS) and Price to Earnings (PE) ratio is unreliable due to the multicollinearity of value added and earnings.

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