

**MARKET CAPITALIZATION IN TOP INDIAN
COMPANIES – AN EXPLORATORY STUDY OF THE
FACTORS THAT INFLUENCE THIS**

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ABSTRACT

For a variety of reasons, market capitalization is considered as an ideal indicator of value creation. However, since market capitalization itself is based on a fragile factor called stock prices, the reliability of this as a criterion for value creation is questionable. In this analysis, we look at companies that are maximum market capitalized during 2006 through 2009. The high market capitalization is evidenced by the fact that these are the constituent companies in the NIFTY and JUNIOR NIFTY futures contracts. We go on to regress the market capitalization against key variables to see the level of dependence. The analysis shows that market capitalization is heavily dependent on profitability and not so much by other factors like asset growth and debt structure. While this is an intuitive conclusion, we can gather more inferences from the analysis when we examine the level of significance of the regression as a whole and those of the independent variables separately.

KEY WORDS: Stepwise regression – Backward Elimination, market capitalization, leverage.

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INTRODUCTION

Market Capitalization has been generally considered as an important yardstick of value for all major portfolio investment decisions. Experienced investors are well aware of the vagaries of the market and how as a result of this, the market capitalization keeps fluctuating wildly unconnected with the fundamentals. However, if one were to keep aside the “market factor” or the “beta factor”, then there are conflicting opinions as to which fundamental parameter influences the market capitalization the most. The best way of ascertaining this would be by looking at historical performance and that is what this study purports to do.

Many surveys to rank the best companies in the country have used Market Capitalizations as a key criterion. The broad logic for this stems from the theory that when we have the market following the semi-strong or strong hypothesis in the Efficient Market theory, the market takes into account all past and known facts and values individual shares accordingly. Because the market price is ultimately the weighted average of all the valuations by individual investors, this can be taken as a reliable estimate in such circumstances. However the difficulty in this approach is that markets are not always efficient and also, are prone to fluctuations for reasons unconnected with the direct market or its component shares. These will affect the market capitalization and hence will not permit a correct ranking.

Given this difficulty, an approach that could be useful is to identify various fundamental parameters which will influence the market and try to find a relationship. A single such test is unlikely to result in satisfactory conclusions, so a series of analysis would need to be undertaken.

SCOPE AND OBJECTIVES OF THE STUDY

The main aim of this study is to evaluate the impact of the non-banking companies' performance on Market capitalization in S&P Nifty Index and the Junior Nifty index, managed by the National Stock exchange. The data of this study consists of the yearly closing values of the companies listed in S&P Nifty Index and the Junior Nifty index over the period 2006 to 2009. In the present study, 50 companies constituting the S&P CNX Nifty and 50 companies constituting the JUNIOR NIFTY have been taken as the sample. Out of the 100 companies, 17 banking companies have been excluded as the interpretation will not be relevant for banking companies. Further five more companies are excluded due to non availability of complete data and this result in 78 companies over the period 2006 to 2009. Additionally ten more companies are excluded from the data set due to Market Capitalization = 0. Finally 68 company values on Market Capitalization (MKTCAP), Year End, Sales turnover (STO), Total Assets (TA), Total Debt (TD) and Profit after tax (PAT) are included for further analysis. For the sake of uniformity of analysis, we are taking four calendar years – 2006, 2007, 2008 and 2009 without reckoning the actual date of closure of books by these companies listed in S&P Nifty Index and the Junior Nifty index. The data for this study was downloaded from www.Capitaline.com.

LITERATURE SURVEY

Bryan, 1998 looks at a sample of 100 international companies with high growth. Those companies that were able to realize high earnings and consequently bring about a high return of equity were seen to have the maximum market capitalization growth. The paper also looks at several strategic aspects including divestment. Specifically the paper looks at book value increases and market value increases over book value.

McNish and Palys argue that the belief that high market capitalizations generally accrue only to large companies is incorrect (McNish, 2005). Their

analysis of traded companies indicates that long term shareholder returns influence the market capitalization to a great degree. They make an arguable contention that companies with less than \$500 million market capitalization have a higher cost of capital making conventional capital assets pricing models inadequate.

The difficulty of using the book to market ratio as a parameter is brought about by Fama and French (Fama, 2008). They go by a questionable hypothesis that changes of Book to Market ratios would inherently contain information about expected cash flows and this, in turn, can be used to improve estimates of expected returns. Their comprehensive testing of this hypothesis, in the paper, however, shows that there is no ground to dismiss this hypothesis and they obtain similar results for mid cap companies as well.

From a slightly different context, (Ericson, 2010) looks at setting of financial targets. Market Capitalization assumes importance as one of the key parameters here. However, the author emphasizes the need for reconciliation among the indicators. The use of Return on Invested Capital as a hurdle rate for new capital investments is discussed in detail.

Cooper & Schill, 2008 examine cross sectional relationship between firm asset growth and subsequent stock returns. Growth in assets are generally strong indicators of abnormal returns in the future. The authors find the firm's annual asset growth rate to be a strong predictor of stock returns in the United States.

Sehgal, 2005 look at top 482 Indian companies for the period 1990 to 2003 and analyse Market capitalization, enterprise value, Net Fixed Assets, Net Annual Sales, Total Assets and Net Working Capital. They say that "size based investment strategy seems to be economically feasible as it provides extra normal returns on risk adjusted basis". However, they found that frequent revisions based on size would be undesirable. The paper gives rise to results of interest to asset managers

Kumar, 2009 has shown in his study the preference shifts of individual investors, which in turn is influenced by past style returns and earnings. He asserts that the investment preferences are unaffected by “innovations in macroeconomic variables or shifts in expectations of future cash flows”. The key point to be taken is that he concludes that “stock categorization influences investors’ portfolio decision and stock returns.

“ If actively managed mutual funds suffer from diminishing returns to scale, funds should alter investment behaviour as assets under management increase” according to (Pollet, 2008). The authors find that small-cap funds diversify their portfolios in response to growth and asset growth does not have much effect on the behaviour of a typical fund.

METHODOLOGY AND MODEL

The data analysis has been performed using SPSS 14 and MS Excel 2007.

Analysis 1

The time series data with 68 companies collected from S&P Nifty Index and the Junior Nifty index for over a period of four years from 2006 to 2009 have been analyzed using the Stepwise Regression technique – Backward elimination method. Here, we have taken the MKTCAP as the dependent variable and STO, PAT, TD and TA as the independent variables. The technique holds the unique property of choosing the predictive variables by beginning with all the variables in the model. At each step the variable with the highest p-value is removed.

This study therefore specifies its models as follows:

$$\text{MKTCAP} = \beta_0 + \beta_1*(\text{STO}) + \beta_2*(\text{TA}) + \beta_3*(\text{TD}) + \beta_4*(\text{PAT}) + e.$$

Where, β_0 is constant $\beta_1, \beta_2, \beta_3, \beta_4$ are the coefficients of STO, TA, TD, PAT and e = error term.

The analysis is done in two parts:

Analysis -1A

Relating to all the companies in the sample for all the years together – 68 companies for 4 years resulting in analysis of 272 cases. The result is displayed in Table 1.

Analysis - 1B

Relating to the companies for each of the four years – 68 companies for each year from 2006 through 2009. The results are displayed from Table 2 to Table 5.

For both Analysis 1A and 1B, the significance levels of the regression as a whole and that of individual variables are analyzed and interpreted.

FINDINGS

Empirical analysis

Analysis 1

This section is concerned with the testing of the models in order to verify hypotheses, using the case of 68 non-banking companies from S&P Nifty Index and the Junior Nifty index. We would like to see the factors involved in the impact of market capitalization over the period 2006 to 2009. The regressed result is shown below:

Analysis - 1A

Stepwise regression – Backward Elimination

Period 2006 to 2009

Table 1 : Model Summary^e

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.913 ^a	.833	.831	17655.06323	
2	.913 ^b	.833	.831	17625.55018	
3	.913 ^c	.833	.831	17609.23972	
4	.912 ^d	.832	.831	17607.56034	2.063

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Total Debt, Sales Turnover

c. Predictors: (Constant), PAT, Total Debt

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 2 - ANOVA^e

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.154E11	4	1.038E11	333.151	.000 ^a
	Residual	8.322E10	267	3.117E8		
	Total	4.986E11	271			
2	Regression	4.153E11	3	1.384E11	445.655	.000 ^b
	Residual	8.326E10	268	3.107E8		
	Total	4.986E11	271			
3	Regression	4.152E11	2	2.076E11	669.469	.000 ^c
	Residual	8.341E10	269	3.101E8		
	Total	4.986E11	271			
4	Regression	4.149E11	1	4.149E11	1338.245	.000 ^d
	Residual	8.371E10	270	3.100E8		
	Total	4.986E11	271			

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Total Debt, Sales Turnover

c. Predictors: (Constant), PAT, Total Debt

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 3 - Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4447.225	1305.964		3.405	.001
Total Debt	.109	.127	.027	.857	.392
Total Assets	.042	.131	.020	.324	.746
Sales Turnover	-.048	.061	-.027	-.778	.437
PAT	13.851	.787	.900	17.592	.000
2 (Constant)	4400.016	1295.622		3.396	.001
Total Debt	.127	.114	.032	1.117	.265
Sales Turnover	-.040	.056	-.023	-.709	.479
PAT	14.050	.492	.913	28.564	.000
3 (Constant)	4225.123	1270.732		3.325	.001
Total Debt	.107	.110	.027	.974	.331
PAT	13.872	.422	.901	32.834	.000
4 (Constant)	4502.575	1238.268		3.636	.000
PAT	14.043	.384	.912	36.582	.000

a. Dependent Variable: MKTCAP

$$\text{MKTCAP} = 4502.575 + 14.043 (\text{PAT})$$

On the basis of the individual significance of the parameter estimates, PAT passed the test of significance because the p-value is < 0.05. This shows that PAT is strongly significant in the determination of the market capitalization of a company. Other variables Total Assets, Total Debt and Sales turnover fail the test of significance. This implies that these three variables are not significant in the determination of the market capitalization of a company in the stock exchange.

From Analysis 1B, the regressed results are shown below:

Analysis – 1B

Stepwise regression – Backward Elimination

Year = 2006

Table 4 - Model Summary^e

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.893 ^a	.797	.784	15288.99317	
2	.893 ^b	.797	.787	15170.34876	
3	.892 ^c	.796	.790	15061.80883	
4	.892 ^d	.795	.792	14980.79719	2.436

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Sales Turnover, Total Assets

c. Predictors: (Constant), PAT, Sales Turnover

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 5 - ANOVA^e

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.770E10	4	1.443E10	61.714	.000 ^a
	Residual	1.473E10	63	2.338E8		
	Total	7.243E10	67			
2	Regression	5.770E10	3	1.923E10	83.573	.000 ^b
	Residual	1.473E10	64	2.301E8		
	Total	7.243E10	67			
3	Regression	5.768E10	2	2.884E10	127.136	.000 ^c
	Residual	1.475E10	65	2.269E8		
	Total	7.243E10	67			
4	Regression	5.762E10	1	5.762E10	256.734	.000 ^d
	Residual	1.481E10	66	2.244E8		
	Total	7.243E10	67			

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Sales Turnover, Total Assets

c. Predictors: (Constant), PAT, Sales Turnover

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 6 - Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8190.249	2263.559		3.618	.001
	Total Debt	-.032	.313	-.007	-.103	.918
	Total Assets	-.081	.374	-.034	-.216	.830
	Sales Turnover	-.046	.145	-.025	-.318	.751
	PAT	14.186	1.945	.938	7.294	.000
2	(Constant)	8138.171	2188.971		3.718	.000
	Total Assets	-.094	.348	-.039	-.271	.788
	Sales Turnover	-.046	.144	-.025	-.317	.752
	PAT	14.220	1.901	.941	7.480	.000
3	(Constant)	8143.307	2173.227		3.747	.000
	Sales Turnover	-.066	.122	-.036	-.540	.591
	PAT	13.786	1.014	.912	13.601	.000
4	(Constant)	7798.595	2066.297		3.774	.000
	PAT	13.485	.842	.892	16.023	.000

a. Dependent Variable: MKTCAP
 MKTCAP = 7798.595 + 13.485 (PAT)

PAT as an independent variable is observed to be statistically significant as the p-value < 0.05. This shows that PAT is strongly significant in the determination of the market capitalization in the year 2006. Other variables Total Assets, Total Debt and Sales turnover fail the test of significance. This implies that these three variables are not significant in the determination of the market capitalization of a company in the stock exchange.

Analysis – 1B

Stepwise regression – Backward Elimination

Year = 2007

Table 7 - Model Summary^e

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
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1	.885 ^a	.783	.769	19780.23091	
2	.885 ^b	.783	.772	19625.71279	
3	.885 ^c	.782	.776	19482.07748	
4	.882 ^d	.778	.775	19511.11716	2.269

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Sales Turnover, Total Assets

c. Predictors: (Constant), PAT, Sales Turnover

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 8 - ANOVA^e

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.872E10	4	2.218E10	56.686	.000 ^a
	Residual	2.465E10	63	3.913E8		
	Total	1.134E11	67			
2	Regression	8.871E10	3	2.957E10	76.775	.000 ^b
	Residual	2.465E10	64	3.852E8		
	Total	1.134E11	67			
3	Regression	8.869E10	2	4.435E10	116.840	.000 ^c
	Residual	2.467E10	65	3.796E8		
	Total	1.134E11	67			
4	Regression	8.824E10	1	8.824E10	231.791	.000 ^d
	Residual	2.513E10	66	3.807E8		
	Total	1.134E11	67			

a. Predictors: (Constant), PAT, Total_Debt, Sales_Turnover, Total_Assets

b. Predictors: (Constant), PAT, Sales_Turnover, Total_Assets

c. Predictors: (Constant), PAT, Sales_Turnover

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 9 - Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5545.146	2969.634		1.867	.067
	Total Debt	.021	.330	.004	.063	.950
	Total Assets	-.097	.415	-.039	-.234	.815
	Sales Turnover	-.130	.148	-.073	-.878	.383
	PAT	15.446	2.301	.961	6.711	.000
2	(Constant)	5587.217	2871.604		1.946	.056
	Total Assets	-.088	.387	-.035	-.228	.820
	Sales Turnover	-.130	.147	-.073	-.885	.380
	PAT	15.421	2.250	.960	6.853	.000
3	(Constant)	5613.903	2848.221		1.971	.053
	Sales Turnover	-.145	.132	-.081	-1.094	.278
	PAT	14.987	1.188	.933	12.613	.000
4	(Constant)	4956.591	2788.280		1.778	.080
	PAT	14.177	.931	.882	15.225	.000

a. Dependent Variable: MKTCAP

$$\text{MKTCAP} = 4956.591 + 14.177 (\text{PAT})$$

On the basis of the individual significance of the parameter estimates, PAT passed the test of significance because the p-value < 0.05. This shows that PAT is strongly significant in the determination of the market capitalization in the year 2007. Other variables Total Assets, Total Debt and Sales turnover fail the test of significance. This implies that these three variables are not significant in the determination of the market capitalization of a company in the stock exchange.

Analysis – 1B**Stepwise regression – Backward Elimination**

Year = 2008

Table 10 - Model Summary^e

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.941 ^a	.885	.877	18840.66086	
2	.940 ^b	.883	.877	18845.34151	
3	.939 ^c	.881	.878	18816.56847	
4	.936 ^d	.877	.875	19022.54516	1.957

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Total Debt, Total Assets

c. Predictors: (Constant), PAT, Total Debt

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 11 - ANOVA^e

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.714E11	4	4.286E10	120.746	.000 ^a
	Residual	2.236E10	63	3.550E8		
	Total	1.938E11	67			
2	Regression	1.711E11	3	5.703E10	160.571	.000 ^b
	Residual	2.273E10	64	3.551E8		
	Total	1.938E11	67			
3	Regression	1.708E11	2	8.540E10	241.191	.000 ^c
	Residual	2.301E10	65	3.541E8		
	Total	1.938E11	67			
4	Regression	1.699E11	1	1.699E11	469.593	.000 ^d
	Residual	2.388E10	66	3.619E8		
	Total	1.938E11	67			

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Total Debt, Total Assets

c. Predictors: (Constant), PAT, Total Debt

d. Predictors: (Constant), PAT

e. Dependent Variable: MKTCAP

Table 12 - Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4047.348	2796.918		1.447	.153
	Total Debt	.299	.253	.059	1.180	.242
	Total Assets	.399	.328	.146	1.215	.229
	Sales Turnover	-.128	.126	-.063	-1.016	.314
	PAT	13.445	1.726	.820	7.791	.000
2	(Constant)	3618.999	2765.632		1.309	.195
	Total Debt	.288	.253	.057	1.136	.260
	Total Assets	.272	.303	.100	.895	.374
	PAT	13.489	1.726	.823	7.816	.000
3	(Constant)	3920.420	2740.875		1.430	.157
	Total Debt	.369	.236	.073	1.566	.122
	PAT	14.873	.764	.907	19.462	.000
4	(Constant)	5033.737	2676.065		1.881	.064
	PAT	15.351	.708	.936	21.670	.000

a. Dependent Variable: MKTCAP

$$\text{MKTCAP} = 5033.737 + 15.351 (\text{PAT})$$

On the basis of the individual significance of the parameter estimates, PAT passed the test of significance because the p-value < 0.05. This shows that PAT is strongly significant in the determination of the market capitalization of a company. Other variables Total Assets, Total Debt and Sales turnover fail the test of significance. This implies that these three variables are not significant in the determination of the market capitalization of a company in the stock exchange.

Analysis 1B**Stepwise regression – Backward Elimination**

Year = 2009

Table 13 - Model Summary^d

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.944 ^a	.891	.884	14024.45197	
2	.944 ^b	.891	.886	13918.64217	
3	.944 ^c	.891	.888	13823.42673	2.011

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Total Debt, Total Assets

c. Predictors: (Constant), PAT, Total Assets

d. Dependent Variable: MKTCAP

Table 14 - ANOVA^d

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.016E11	4	2.541E10	129.183	.000 ^a
	Residual	1.239E10	63	1.967E8		
	Total	1.140E11	67			
2	Regression	1.016E11	3	3.388E10	174.860	.000 ^b
	Residual	1.240E10	64	1.937E8		
	Total	1.140E11	67			
3	Regression	1.016E11	2	5.080E10	265.858	.000 ^c
	Residual	1.242E10	65	1.911E8		
	Total	1.140E11	67			

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Total Debt, Total Assets

c. Predictors: (Constant), PAT, Total Assets

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Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.016E11	4	2.541E10	129.183	.000 ^a
	Residual	1.239E10	63	1.967E8		
	Total	1.140E11	67			
2	Regression	1.016E11	3	3.388E10	174.860	.000 ^b
	Residual	1.240E10	64	1.937E8		
	Total	1.140E11	67			
3	Regression	1.016E11	2	5.080E10	265.858	.000 ^c
	Residual	1.242E10	65	1.911E8		
	Total	1.140E11	67			

a. Predictors: (Constant), PAT, Total Debt, Sales Turnover, Total Assets

b. Predictors: (Constant), PAT, Total Debt, Total Assets

c. Predictors: (Constant), PAT, Total Assets

d. Dependent Variable: MKTCAP

Table 15 - Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-66.090	2133.933		-.031	.975
	Total Debt	.054	.159	.019	.338	.736
	Total Assets	.301	.158	.209	1.902	.062
	Sales Turnover	-.016	.083	-.012	-.195	.846
	PAT	10.393	1.150	.756	9.040	.000
2	(Constant)	-172.872	2046.726		-.084	.933
	Total Debt	.053	.158	.019	.337	.737
	Total Assets	.287	.139	.199	2.064	.043
	PAT	10.425	1.129	.758	9.230	.000
3	(Constant)	-20.395	1982.507		-.010	.992
	Total Assets	.313	.114	.218	2.758	.008
	PAT	10.329	1.085	.751	9.515	.000

a. Dependent Variable: MKTCAP

MKTCAP = -20.395 + 10.329 (PAT) + 0.313 (Total Assets)

On the basis of the individual significance of the parameter estimates, PAT and Total Assets passed the test of significance because the p-value < 0.05. This

shows that PAT and Total Assets are strongly significant in the determination of the market capitalization in the year 2006. Other variables Total Debt and Sales turnover fail the test of significance. This implies that these two variables are not significant in the determination of the market capitalization of a company in the stock exchange.

DISCUSSION OF RESULTS

Overall, we find that PAT is the most significant influencer of the dependent variable. The coefficients of the other variables are not significant. From the estimated results, the coefficient of determination value of 0.832 implies that 83.2% of the variations in the market capitalization are explained by changes in the independent variables. The coefficient of the constant implies that if all explanatory variables are assumed to be zero, then other factors will still contribute and explain 4502.575 units of the variations in the dependent variables. If there is a unit increase in PAT, there will be a 14.043 units increase in MKTCAP. The adjusted coefficient of determination value of 0.831 shows that about 83.1% variation would be explained by changes in all the independent variables. We feel that this is a good fit. A test of the overall significance of the model i.e p-value < 0.05 shows that the model is strong enough to explain the changes in the dependent variable.

For the year 2006 the coefficient of determination value of 0.795 implies that 79.5% of the variations in the market capitalization are explained by changes in the independent variables. The coefficient of the constant implies that if all explanatory variables are assumed to be zero, then other factors will still contribute and explain 7798.595 units of the variations in the dependent variables. If there is a unit increase in PAT, there will be a 13.485 unit increase in MKTCAP. The adjusted coefficient of determination value of 0.792 shows that about 79.2% variation can be explained by changes in all the independent variables. A test of the overall significance of the model i.e p-value < 0.05

shows that the model is strong enough to explain the changes in the dependent variable.

For the year 2007, the coefficient of determination value of 0.778 implies that 77.8% of the variations in the market capitalization are explained by changes in the independent variables. If there is a unit increase in PAT, there will be a 14.177 unit increase in MKTCAP. The adjusted coefficient of determination value of 0.775 shows that about 77.5% variation is explained by changes in all the independent variables. A test of the overall significance of the model i.e p-value < 0.05 shows that the model is strong enough to explain the changes in the dependent variable.

For the year 2008, the coefficient of determination value of 0.877 implies that 87.7% of the variations in the market capitalization are explained by changes in the independent variables. If there is a unit increase in PAT, there will be a 15.351 unit increase in MKTCAP. The adjusted coefficient of determination value of 0.875 shows that about 87.5% variation is explained by changes in all the independent variables. A test of the overall significance of the model i.e p-value < 0.05 shows that the model is strong enough to explain the changes in the dependent variable.

For the year 2009 the coefficient of determination value of 0.944 implies that 94.4% of the variations in the market capitalization are explained by changes in the independent variables. If there is a unit increase in PAT, there will be a 10.329 unit increase in MKTCAP. Also a unit increase in Total Assets will increase MKTCAP by 0.313 units. The adjusted coefficient of determination value of 0.891 shows that about 89.1% variation is explained by changes in all the independent variables. A test of the overall significance of the model i.e p-value < 0.05 shows that the model is strong enough to explain the changes in the dependent variable.

CONCLUSIONS

The analysis and findings show that market capitalization is heavily influenced by Profitability. This is intuitive. However, given the wide fluctuations that market capitalizations undergo because of market vagaries, there are traders who believe that other indicators like Sales Turnover, Assets and leverage would also influence this. It turns out that when the analysis is done for a sufficiently long period (at least one year), Profits constitute the dominant influence. The age-old adage that a company is only as good as its profits would support this conclusion.

However, it has to be said that the study has inherent scope for enhancement in that the study is confined only the top market-capitalized companies and that too for only four years. A more detailed study can look into the “Beta” effect and also the effect on mid-cap and low-cap shares. Further, we could also analyse the actions of Mutual funds in support or contrary to this phenomenon

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