FINANCIAL DETERMINANTS OF FIRM’S VALUE: EVIDENCE FROM INDIAN FIRMS

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ABSTRACT

This paper investigates empirically the determinants of firm value creation. For this, 16 companies of four sectors namely Metal, Fast Moving Consumer Goods (FMCG), Information Technology (IT) and Automobile industry listed on Bombay Stock Exchange (BSE) from 2002 to 2011 were identified on the basis of market capitalization in their industry. Taking evidence from numerous literatures, various factors have been identified namely Net sales, Profit, Fixed Assets, dividend pay-out ratio and capital structure as the financial variables affecting firm’s value. Data from 2002 to 2011 were collected for all these companies from Money-Control, Business-Line and companies websites. Hence, data under considerations are all secondary data. Correlation tool was applied to identify multiple correlations among variables, if any. Augmented Dickey Fuller (ADF) test was applied to check stationarity of data and thereafter Pooled Regression Model (PRM) was applied to identify the significant factors. Our finding goes along with the proposition of Modigliani and Miller i.e. Capital structure doesn’t influence value of a firm. But at the same time, this research outcome suggests that WACC has a significant impact on the value of the firm. Other significant factors identified through proposed model are fixed assets, net sales and profit. The research will help managers and policy makers to take rational decisions while evaluating different financial parameters in-order to increase the value of the firm.

KEYWORDS : Financial Leverage, Market Capitalization, Pooled Regression, Unit Root Test.