

# An Empirical Analysis of Financial Ratios and their Impact on Share Price Movements: A Study of Infosys Limited

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## ABSTRACT

This study looks at the impact of financial ratios on Infosys Limited's share price between 2021 and 2025. It seeks to assess the company's financial performance using important criteria including profitability, liquidity, and leverage and investigate how these ratios relate to changes in stock prices. Regression and correlation analysis are two methods used to examine data that is gathered from financial websites and yearly reports. According to the study, Return on Equity (ROE) considerably raises share prices, underscoring its significance in market value. Earnings Per Share (EPS), on the other hand, exhibits a weak link. Additionally, it mentions how outside variables like investor sentiment and the state of the economy affect share prices, giving analysts and investors important information.

**KEYWORDS** - *Financial Ratios, Share Price Movement, Return on Equity (ROE), Earnings Per Share (EPS), Profitability Analysis, Liquidity Ratio, Leverage Ratio, Correlation Analysis, Regression Analysis, Stock Market Behaviour, Infosys Limited*

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## INTRODUCTION

A New methods are being developed by analysts and investors to evaluate a company's performance and predict changes in stock prices. Planning for growth and making wise investments both rely on precise forecasting. Financial analysis helps stakeholders understand a company's stability and performance, which influences investment decisions. Financial ratio analysis, one of the most crucial methods, provides objective assessments of profitability, liquidity, and overall financial health. Examining these ratios enables investors to assess a company's financial standing, which is essential for making informed investment choices. An Analytical Study on the Influence of Financial Ratios on Share Price Movement with Reference to Infosys Limited looks at how specific financial ratios impact stock price fluctuations in the rapidly growing IT sector.

## OBJECTIVES

- To evaluate Infosys Limited's financial performance using key financial factors like profitability, liquidity, and leverage
- To assess how Infosys's share price fluctuations reflect the company's financial performance, including EPS, ROE, ROA, P/E, PBV, and Debt-Equity Ratio.
- To use correlation analysis to look into the connection between specific financial ratios and changes in share prices.
- Make useful recommendations based on stock price analysis and financial ratios.
- To identify the financial ratios that have a significant influence on the stock price of Infosys limited.

## REVIEW OF LITERATURE:

**Bahri, Fitri, and Nugraha (2025)** investigated the influence of financial ratios on commercial bank share prices on the IDX. The study found that profitability and leverage ratios such as ROA, ROE, P/E, and DER have a significant impact

on stock prices, while liquidity ratios show minimal effect. This suggests that investors give more importance to earnings performance and financial stability when evaluating banking stocks. The study highlights the importance of profitability indicators in determining market value. It also emphasizes that companies with strong financial performance attract investors. Overall, financial ratios play a crucial role in stock price movements.

**Laili (2024)** examined businesses in Indonesia's industrial and consumer staples sectors. The findings revealed that ROE, P/E ratio, and EPS significantly influence stock prices, whereas ROA and the current ratio have limited impact. This indicates that investors prioritize profitability and market valuation measures over liquidity ratios. The study shows that earning potential and return on equity are key factors in investment decisions. It also reflects the importance of market perception in stock valuation. Thus, profitability and valuation ratios are critical in influencing share price behavior.

**Aji and Tantri (2024)** focused on healthcare sector companies listed on the IDX. The study found that liquidity and solvency ratios, particularly the Current Ratio and Debt-to-Asset Ratio, significantly affect stock prices, while profitability ratios have a smaller individual impact. This suggests that investors in the healthcare sector emphasize financial stability and risk management. The research highlights the sector-specific influence of financial ratios. It shows that the ability to meet financial obligations is crucial for investor confidence. Overall, stock price determinants vary across industries.

**Prakash and Anand (2022)** analyzed companies listed on the NSE. The study concluded that profitability and market value ratios are the dominant factors influencing share prices. Investors rely heavily on financial performance indicators such as earnings and valuation multiples. The findings confirm that profitability plays a major role in stock valuation. It also shows that market-based ratios are important for investment decisions. The study reinforces the significance of financial analysis in stock market behavior. Therefore, financial ratios are essential tools for investors.

**Rahul and Verma (2021)** examined Indian manufacturing companies to identify key determinants of stock price movements. The study found that Earnings Per Share (EPS) and Return on Equity (ROE) are the most significant variables. These findings highlight the importance of profitability and shareholder returns. Investors prefer companies with strong earnings performance. The study emphasizes the role of financial efficiency in determining stock value. Overall, EPS and ROE are critical factors influencing stock prices.

## 2.2 RESEARCH GAP

### Lack of Research

Existing studies have mostly concentrated on evaluating the effect of financial ratios on stock prices in various industries, including banking, healthcare, manufacturing, and consumer goods. However, the results differ across sectors since some research focus on profitability ratios (ROE, EPS) while others focus on liquidity and solvency ratios. Furthermore, previous studies have generally focused on sectors and have paid little attention to firm-specific analysis, particularly in the Indian IT industry.

Additionally, several studies have focused on larger datasets and several businesses, but they have failed to conduct a comprehensive examination of a single firm during the current period. Additionally, there is inadequate integration of various financial indicators into a single analytical framework. Additionally, outside influences like investor mood and market conditions are frequently recognized but not given sufficient attention. As a result, there is a significant gap in performing a targeted, current, and company-specific study that uses a combination of financial ratios to evaluate changes in stock prices.

### The Study's Contribution (What I Have Done)

“An Analytical Study on the Impact of Financial Ratios on Share Price Movement with Reference to Infosys Limited” is the title of my study, which specifically targets the recognized research gaps.

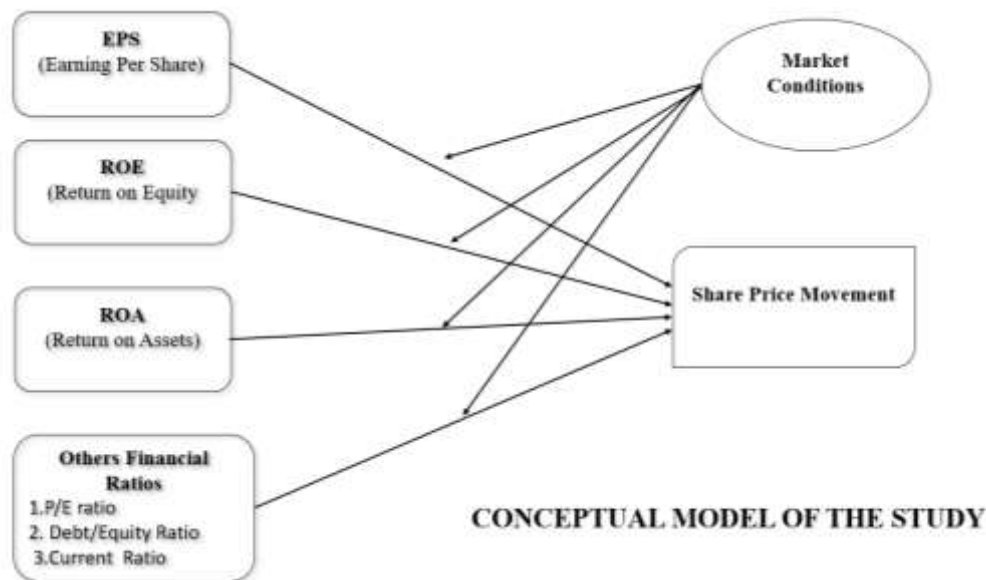
First, unlike prior sector-based research, I have done a company-specific study of Infosys Limited, which helps make up for the paucity of research in the Indian IT industry. In addition, my research is concentrated on the period between 2021 and 2025, which means that the results are more pertinent and consistent with the present state of the market.

Thirdly, I have included a number of financial ratios, such as the Debt-Equity Ratio, P/E, PBV, ROA, EPS, and ROE, to give a more complete picture of the financial performance and how it affects share price changes. I have employed correlation and regression methods to improve the accuracy and reliability of my findings and to enhance my analysis.

**RESEARCH METHODOLOGY:**

A study's design is its blueprint, outlining the type of research, methods for gathering data, analytical tools, and procedures for achieving the investigation's objectives. The reliability and validity of outcomes are increased by excellent design. This study evaluates Infosys Limited's financial performance and the relationship between share prices and financial ratios using a descriptive and analytical research design. Descriptive studies that cover financial health metrics show patterns between 2016 and 2025. Analytical research looks at statistical methods to determine how share prices are affected by financial ratios. Using purposive sampling, the study focuses on Infosys Limited from 2021 to 2025 and uses secondary data from reliable sources.

**Conceptual Model of the Study**



**DATA ANALYSIS & INTERPRETATION**

**1. Correlation of EPS and Share price**

		eps	Share price
EPS	Pearson Correlation	1	.105
	Sig. (2-tailed)		.866
	N	5	5
Share price	Pearson Correlation	.105	1
	Sig. (2-tailed)	.866	
	N	5	5

**Table: 4.1 Correlation of EPS and Share price**

**Interpretation:**

With a Pearson correlation coefficient of 0.105 between Earnings Per Share (EPS) and share price, a weak positive correlation is shown. The value is 0.866, showing the association is not statistically important, hence EPS changes have no significant influence on the share price of Infosys Limited.

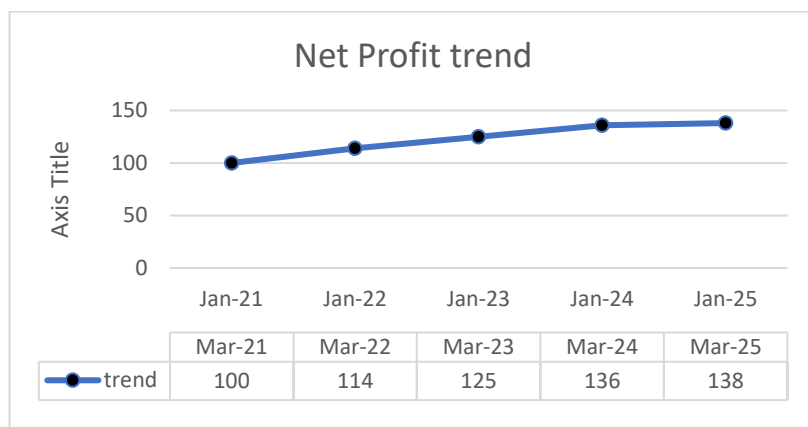
**Hypothesis Testing:**

- (H<sub>0</sub>): EPS has no significant relationship with share price
- (H<sub>1</sub>): EPS has a significant relationship with share price

**2. NET PROFIT TREND ANALYSIS**

Year	Net Profit	Trend%
Mar-21	₹ 19,351.00	100
Mar-22	₹ 22,110.00	114
Mar-23	₹ 24,095.00	125
Mar-24	₹ 26,233.00	136
Mar-25	₹ 26,713.00	138

**Table: 4.2 Net Profit Trend Analysis**



**Chart: 4.1 Net Profit Trend Analysis**

**INTERPRETATION**

The net profit trend shows steady rise from March 2021 to March 2025, rising from ₹19,351 in 2021 to ₹26,713 in 2025. The trend percentage rose from 100 to 138, indicating higher incomes and financial stability. Trend value = current year/base year × 100 is the formula.

**Hypothesis testing:**

- (H<sub>0</sub>) asserts that net profit has not significantly increased over time.
- (H<sub>1</sub>) indicates that net profit is trending significantly upward.

**3. REGRESSION ANALYSIS**

**Summary**

**ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	108952.543	1	108952.543	14.149	.033 <sup>a</sup>
	Residual	23101.090	3	7700.363		
	Total	132053.633	4			

a. Predictors: (Constant), ROE

**ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	108952.543	1	108952.543	14.149	.033 <sup>a</sup>
Residual	23101.090	3	7700.363		
Total	132053.633	4			

b. Dependent Variable: Share price

**Table: 4.4 ANOVA**

**Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	351.916	346.507		1.016	.385
	ROE	54.412	14.465	.908	3.762	.033

**Table:4.5 Coefficient**

**MODEL SUMMARY INTERPRETATION:**

The model has a significant correlation (R=0.908) and can explain 82.5% of share price volatility. It has strong data fit and predictive power.

**ANOVA EXPLANATION:**

The regression model is significant, according to the ANOVA findings, which reject the null hypothesis (F = 14.149, p = 0.033). Share price is much influenced by ROE, hence confirming the prediction model.

**COEFFICIENTS INTERPRETATION:**

**Share Price= 351.916+54.412×(ROE)**

According to the ROE coefficient, the share price increases by roughly 54.41 units for every unit rise in ROE. The beta value exhibits a strong association, and ROE makes significant predictions.

Testing Hypothesis:

- (H<sub>0</sub>) claimed that the share price is not much impacted by ROE (β = 0).
- (H<sub>1</sub>) claimed that the share price (β ≠ 0) is significantly impacted by ROE.

**FINDINGS:**

- 1 The study demonstrated that Return on Equity (ROE) is a key factor in stock performance since it has a highly and statistically significant positive impact on Infosys Limited's stock price.
- 2 Earnings per share (EPS) by itself has little bearing on investor choices, as evidenced by the weak and statistically negligible association between EPS and share price.

3 According to the regression study, there is a strong predictive relationship between financial performance and market value as ROE explains 82.5% of the variation in share price.

4 The net profit trend, which indicates consistent growth between 2021 and 2025, points to improved financial outcomes and business stability.

5 In addition to financial statistics, external factors that affect stock values include market conditions and investor sentiment.

#### **SUGGESTIONS:**

1. Rather of relying solely on EPS, investors should consider ROE and profitability ratios while making investment decisions.

2. Businesses should aim to increase their return on equity by maximizing shareholder value through efficient asset utilization.

3. Using multiple financial metrics rather than just one ratio is necessary for more accurate stock price forecasting.

4. Future study should consider external factors like market changes and economic situations for a more comprehensive understanding.

5. By expanding the research, incorporating many companies or industries will improve the data' generalizability and usefulness.

#### **CONCLUSION:**

The study found that financial ratios have a major impact on the volatility of Infosys Limited's share price. Return on Equity (ROE) emerged as the most important component among the variables examined; Earnings Per Share (EPS) had minimal impact. A strong correlation between changes in stock prices and financial success is supported by the regression data. The consistent increase in net profit further highlights the company's financial stability. In general, the study highlights how capital decisions are guided by profitability metrics.

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