



A STUDY ON RELATIONSHIP BETWEEN PROFITABILITY RATIOS AND CLOSING STOCK PRICE: EVIDENCE FROM SELECTED LEADING COMPANIES IN INDIA

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ABSTRACT

This study deals to find out relationship among selected profitability ratio and closing stock price of leading companies of India. The purpose of this study is to establish a relationship between accounting-based profits and stock prices on market; it will also provide useful information to investors and investors' decisions. ROE, ROA, NPM, and OPM are profitability ratios used for this research whereas closing stock price is a dependent variable.

This study covers ten major Indian companies from various industries over a period of five years. Secondary data was collected from annual report, audited financial statements, NSE records, and other financial databases. The quantitative, descriptive and analytical study design was used to conduct this research project. Correlation analysis of Pearson's and regression model was used to analyze relationship between profitability ratio and closing price.

The study found a variation of relationship between profitability ratio and stock price among companies and industries. ROE and ROA are positively correlated to closing stock prices whereas NPM and OPM are negatively correlated to closing stock prices. Hypothesis testing shows that ROE and ROA are related to closing stock prices whereas NPM and OPM are not. It's more than just profitability; it's also inflation rate, interest rates, government policies, economic conditions and investor sentiment.

KEYWORDS: NPM, OPM, ROE, ROA, Regression analysis, Profitability Ratio

1. INTRODUCTION

Financial results are an indicator of power as well effectiveness on behalf companies. Financial analysts stockbrokers bankers rely upon reports from companies for evaluating them as well sustaining them financially. Efficiency resources need to be utilized by a firm; cost-saving may occur while performing tasks that are part of its profit's generation activities. Effectiveness can be measured by profits too, isn't it right then and there.

The present study focuses on four important profitability ratios: Return on Equity (ROE), Return on Assets (ROA), Net Profit Margin (NPM) and Operating Profit Margin (OPM). The ROE is a profit margin that shows profitability of company's performance relative to shareholders' interests. The ROA is an indicator that reflects on how well assets are utilized by businesses for profit generation, which may then also serve their purpose here. NPM measures profits after COGS & cost are subtracted out of sales income. The OPM is a measure for measuring profits from main activities as well as effectiveness on controlling costs while carrying out process implementation steps.

A correlation study might have gone ahead for a positive as well a negative of relationships among chosen financial factors with respect of shares' values respectively. It can be regressed for measuring impacts that interventions have had upon price movements as well as levels of variance due thereto

2. RESEARCH PROBLEM

- Profit margins are also a measure of efficiency, production capacity & earning power by companies. ROE, ROA, NPM & OPM is utilized both from investor's point-of-view and banker's perspective to evaluate asset productivity towards earning profits.
- Profitably strong firms would probably attract a lot of shareholders' interest. Good utilization of shareholders' money, property and business could be a sign that they are efficient financiers with room to profit ahead. Profit information may influence investment decisions and stock prices for a company.



- Previous studies have given contradictory findings on correlation between profits and share prices; also returns were inconsistent among them. Some studies have positive and strong relationships while others are negative with very little to no correlation between these variables. The direction and strength of the relationship may vary according to the ratio, company, industry and study period.
- These are some of our top 10 Indian firms that play a role at various sectors with diverse business models, financing structures and assets base. Therefore, profit rates have an influence of varying degrees for stock prices across several companies and sectors. Ratios of profitability matter a lot for certain sectors; however, they don't affect other companies' stock value much at all.

4. REVIEW OF LITERATURE

1. Stiawan (2026) : Multiple regressions were used to show that there was a non-significant impact of ESG disclosures over market reactions. According to my study, shareholders should focus on economics rather than environmental, social & governance information (ESG). Elastic sustainability (ESG) disclosures are usually seen more of an obligation issue, not much value for investing on behalf of shareholders. This research emphasized on improving ESG reporting reliability as well as value for money (VFM). Enhancing them will increase stockholder's trustworthiness as well their relevance on markets

2. Dr. Riyazuddin, Anamika Singh, and Dr. Poonam Gupta (2026): High leverage hurt profits as well as revenues; low debt helped with taxes but didn't affect earnings much at all. The capital structure choices were industry-specific as well as firm-specific. Our company's financial structure proves to be effective and focused on shareholders' interests, as per this research work. Capital structure varied by industry and company characteristics also. Our study has shown that it is important for shareholders' interest if there are proper finances at work here.

3. Vijay Agrawal (2026): Vijay Agrawal This study looked at firm size's impact on profitability persistence by comparing 76 large-cap and small-cap Indian firms. With use of panel data analysis techniques (fixed effects), we have used roe, roe, opm & total asset for prediction purposes. Smaller companies did well on profits kept while large ones weren't very sensitive either financially or by size parameters at all. Large fonts are much steadier due to lower costs and easier funding sources that they have access to.

4. Manjunatha S. & Dr. Shreyes N. R. (2026): The research has revealed methods for correcting haemostatic errors that are vital because they impact precision on models' outcomes, and profit margins have been determined to be significant variables affecting stock value substantially. R This paper studied the effects of profitability, return, and leverage ratios on stock prices of 18 BSE-listed cement companies from 2004 to 2025. The panel data model for analysing dr, der, ltd on basis of ROE<, ROA, NPM and OPM is given below. Excessive power damaged profit margins and revenue rates, whereas insufficient strength resulted in cost-cutting of tax payments while simultaneously reducing earnings figures significantly.

5. Dewi & Musmini (2025): Our companies' ESG's tend to be regulation based and there is nothing that distinguishes these two types from each other. The ESG reportage norms need to get better and also more transparent. Better ESG disclosure is relevant for stockholders. Today's ESG report does not affect stock prices much at all. Improved ESG disclosures would enhance their significance to shareholders as well. ESG reporting is currently of low value for investors' benefit. Other ratios like PBDIT margin, ROE, ROA and debt equity ratio are also insignificant.

6. Zhang et al. (2025): Institutional power and international regulations are also factors that affect it, respectively. Good management and execution also enhance benefits of mandatory disclosures needs. The study shows that required ESG disclosure would improve market information when properly implemented. It is important that your institution counts on you. Dewi and Musmini This study measured the impact of ESG disclosure on stock prices of Indonesian banking companies from 2021 to 2025. Regression panel analyses did not find any significant effects of ESG on stock prices either individually, nor jointly across firms.

7. Narasimha Raju Moparthy and Srikanta Patnaik (2025): It was beneficial to both purchase and sell positions on various types of deals. The study has revealed 'ai based prediction such as LSTM is useful for predicting stock price'. The results were profitable buying/selling opportunities for various industries. The study found out there is a need for transparency which increases availability of environmentally friendly information and reduces disparities between people's knowledge about it. However, mandatory disclosures may at times override company-specific data and be less useful.

8. Sruthi S. & Dr. S. Jayanthi Sobhana (2025): The profitability of Sruthi s company is evaluated through NPM, ROE, ROA, statistics include mean, SD, CV one way analysis of variance (one-way), ITC is profitable and has more variance. Statistically significant differences were found between company profits from an analysis of variance (ANOVA). The study has shown internal and external influences on managerial remuneration for any given organization, specifically focusing upon FMCG profitability levels. Narasimha Raju Moparthy and Srikant Patnaik developed an LSTM deep learning model to predict stock prices and assess sector-wise profitability of India.

9. Priya Gupta and Valeed Ahmad Ansari (2025): Priya Gupta and Valeed Ahmad Ansari This paper studied the effectiveness of combining gross profitability and 52-week high momentum strategies in the Indian stock market using data from NSE 500 stocks. Evaluation techniques like valuation of weights (equal and unequal) is used too. Profit momentum combined approach



gave higher return-to-risk ratios, also with same importance given to each factor. High profit stocks did well while low profit ones were bad; however, momentum performances weren't great at all.

10. Ms. Prabha Ravi Mishra and Dr. Santosh Kumar (2025): Santosh Kumar This study analysed key variables affecting stock choice choices of retail investors in India. Using Exploratory Factor Analysis (EFA) and reliability tests on 14 variables, it identified four key dimensions financial, behavioural/psychological, market/economic, and external factors. Finance as well psychology played a major role for investors; their ages, incomes & educations are influential too. This research found out how integration between basic analytics as well as trends along with knowledge about human behaviour would improve our ability to choose stocks better from an investor's perspective.

11. Pereira da Silva (2024): The disclosure rates for ESG were reduced with more information on stock price levels being disclosed as well. More advantages can be gained by countries with good legislation and investor's liberties. The research found organizational strength to be important for improving sustainability, ESG transparency benefits substantially. Regulations are of great importance for proper functioning of an effective market system. The regulations matter a lot to good markets functioning properly. This research shows that enhancing organizational management will increase sustainability-related reporting's worthiness.

12. Al-Hadban et al. (2024): Variations exist between strengths depending on industry & organization settings. ESG disclosures are an indicator of corporate responsibility and stakeholder credibility. The ESG has been identified by us to be an indicator of long-term company development success rates. They recommend further research on poor nations as well. ESG reports have an enhancing effect to businesses' funds also. This study explored the relationship between ESG disclosures and information content of stocks at national level through analysis of institutions' factors.

13. Philipp Krueger, Zacharias Sautner, Dragon Yongjun Tang & Rui Zhong (2024): It was good as there is a rise due to required disclosure which increases transparency, reduces knowledge disparity among people. Investors liked sustainability data provided by companies well enough. Market performance tends to be good with proper regulation & institutionality. From our study we can say that there is an increasing demand of ESG disclosure which would lead towards improved price levels on stocks & brokerage firms' efficiency because they are producing more eco-friendly information now-a-days.

14. Berg, Koelbel, Pavlova & Rigobon (2024): Noise filters were created by combining ratings from various organizations as measurement tools of these systems. The changes increased correlation between ESG scores and stock performance. Similar improvements were found on other measures, including those related with finance results. The findings point out urgent requirements of reliable and constant data about ESG's. It's important for a proper financial record keeping system, along with wise investment decisions taking place at present.

15. Karma Wangchuk (2022–2023): Results showed a major positive and very substantial contribution from roes on profit expansion while at same time there is also good effect for ratio measures. There is a negative but modest relationship of debt-to-equity ratio with earnings per share. There is profitability that affects stock prices but there are also factors of liquidity which have much impact on them while loan facilities don't affect their value much.

16. Ruri Aulia Sari, Nur Aini, and Syarifuddin (2023): These factors together explained 53.9 % of stock price changes, the rest being due to other factors. Earnings rate of profit-making ability is an important factor affecting stock price that should be considered by investors. Karma Wangchuk This paper studied the impact of selected financial ratios on stock returns of 100 companies listed on the NSE of India for the financial year 2022-2023. Karma Wangchuk This paper studied the effect of chosen financial ratios on stock returns of 100 companies listed on the NSE of India for the financial year 2022-2023.

17. Christensen et al. (2021): However excessive financial disclosures may also distract investors from other information they have available to them financially speaking. Studies have shown that ESG disclosures are likely to have an impact on stock price reactions because they are less relevant from financial statements. The institutional investor's participation may be reduced due to requirement for disclosing environmental data from an analyst. Companies may increase their earnings management above this range as well. The effects may also occur with no laws and organizations. In general, mandatory ESG reporting increases accountability but could reduce investor insight from earnings reports to securities markets as well.

18. Eissa A. Al-Homaidi et al. (2021): Operational effectiveness of a business as well its scale with respect to profitability through roe & eps. Productive performance of our firm, along with expansion is beneficial for profit making while indebtedness has an adverse effect on earnings. Company internal parameters are of great significance to profits from studies done by us. From our research we can say that improved efficiency of work and financial management would lead to an increase on profit rates considerably. The study found out an increase of business productivity as well as profit generation through better administration skills development.

19. Manjunath Awalakki & Dr. Archanna H.N. (2021): Panel data models pooled, fixed effects and random effects were employed; we chose to use a random effect model as it's appropriate for this study. Archanna H.N. (2021): examined the relationship between accounting ratios and stock returns of NSE-listed companies from 2005 to 2020. Thus, from our study we have learned that a financial rate can be used for predicting profit and improving shareholder's understanding of accounting standards on measuring assets' values accurately. Panel data models pooled, fixed effects & random effects were used; random



effect model is a good choice here. The results indicated that financial metrics have a considerable impact on earnings as well as investments.

20. Nandini E.S., Sudharani R., and Dr. N. Suresh (2020): Suresh This study looked at the impact of environmental accounting on profitability of 18 BSE-listed companies over 10 years of data. It compared environmental protection costs to profitability measures such as ROCE, ROA, ROE, NPM, and Dividend per Share (DPS) with Panel Data Regression in E-Views. There was a significant relationship between ECOU and several economic variables positively correlated to it. The study has shown that business profits can be increased by adopting environmental friendliness strategies too; additionally, ecocentrism plays a part towards sustainability and client delight.

21. Dr. N. Suresh and Pooja M. (2020): Ecological statements had an important correlation with some of these positive indicators for them financially as well. This research proves ecological companies are profitable compared with those who don't follow environmental policies at all. There was a significant relationship between environment reports and several financial metrics that were favourable to them. The study analysed 15 ratios, including ROE, ROA, P/E, P/B, P/S, and P/C from the CMIE Prowess database.

22. Madhusudhan Nukala et al. (2020): The panel data models based upon correlations as well as old regressions have demonstrated. The dividends contributed to shareholder's equity as well, which is reflected by an increase value of stock at any company's financial statement. This research found out a good payment strategy increases profit margins as well as increases shares' valuation over extended durations. The study has revealed that an effective payout policy enhances profits, stock value growths with passing periods of time.

23. Jody Grewel, Edward J. Riedl & George Serafeim (2019) Research has demonstrated, however; environmental friendliness beats productivity for profit-making purposes over regulations by themselves if you want success at all costs. It may also serve to use an example of esg for strategy formulation purposes. Firms with complete disclosure of esg were also profitable and saw a large jump in shares value. ANOVAs are used here to determine if there is a significant difference between them. From our results we can see a lack of significant differences between firms' profit rates so their performances are similar within one industry as well.

24. Dr. P. Arun Prakash and Ms. B. Savitha (2017): Panel unit root test, Johansson's and Fischer's co-integration model, granger causality test, random effects panel regression is used. The operating profits of two roas are positively correlated whereas those related with roes have an inverse relationship among each other. This research is concerned with bank's profit rate factors that are relevant to investments as well as finance decisions making process. Savitha This study looked at the relationship between bank stock returns and institutional-specific profitability determinants for 27 BSE-listed commercial banks. The paper suggested enhancing esg report quality to improve a company's image as well its credibility with stakeholders.

25. Ali Bayraktaroglu, Cagatay Mirgen & Ezgi Kuyu (2017) This study examined the relationship between profitability ratios and stock prices of 87 companies listed on the BIST-100 Index using panel data regression analysis with the Driscoll-Kraay estimator. The study focused on Gross Profit Margin (GPM), Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). There is an important positive correlation between Net Profit Margin (NPM) and stock prices, while some of these variables are not significant.

5. RESEARCH METHODOLOGY

The title of this research paper is "A Study on Relationship between Profitability Ratios and Closing Stock Prices Evidence from Selected Leading Companies in India". The quantitative, descriptive and analytical approach has been applied for conducting this study.

This study was carried out as an empirical research project, which is based upon secondary data collected from various reliable sources of finance. The company members are shareholders of stock market Indian stock exchange. Purposive sampling technique was used to select the sample, and the study covers 10 selected leading companies in India.

The company selection was based upon strength of market, current business activities; availability of financial data and history of stock price. The study covers a period from FY 2021-22 to FY 2025-26. The dependent variable is the closing stock price, particularly the March/June closing price as specified in the study.

The dependent variable is the closing stock price, particularly the March/June closing price as specified in the study. The data for financial analysis used here is from annual reports, audited financial statements, Money control.

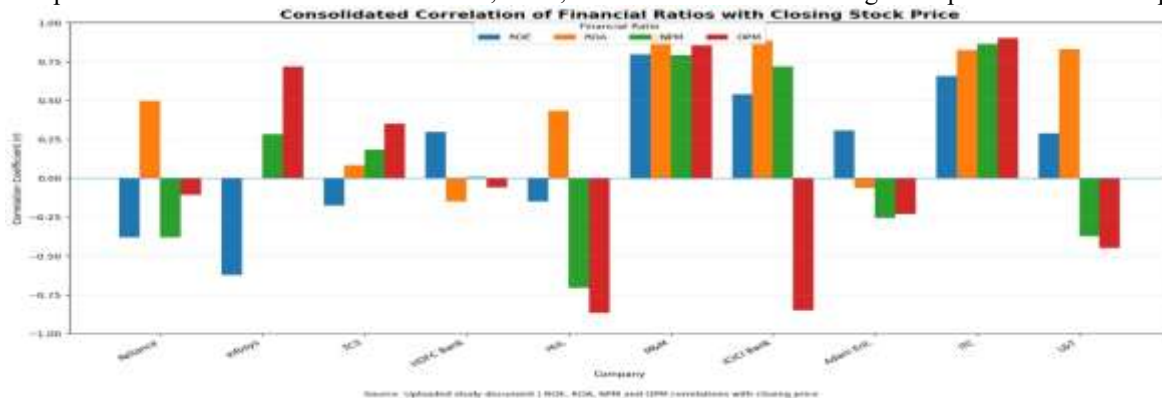
Stock prices were obtained from official stock exchange records and reliable financial databases of NSE. For analysing relationship between profitability ratio and closing price of stock, we used Pearson Correlation Analysis technique.

This research helps to determine direction, strength of correlation between selected profitability ratio and stock price. In addition to correlation analysis, Multiple Regression Analysis is also used for analysing effect on closing stock prices due to selected profitability ratios.

6. DATA INTERPRETATION

6.1 Correlation

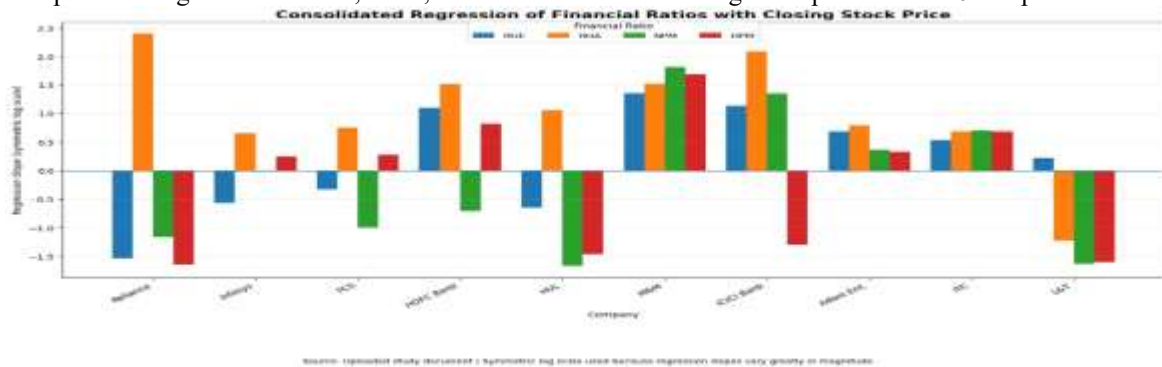
The graph compares the correlation coefficients of ROE, ROA, NPM and OPM with closing stock price for all 10 companies.



The correlation analysis shows that the relationship between profitability ratios and closing stock prices varies across the selected companies. ROE has both positive and negative relationships, while ROA generally shows a positive association with stock prices. NPM also shows mixed results, with strong positive relationships in M&M, ICICI Bank and ITC but a strong negative relationship in HUL. OPM shows considerable variation, with strong positive relationships in Infosys, M&M and ITC and negative relationships in HUL and ICICI Bank. Overall, profitability ratios do not have a consistent relationship with stock prices. The strength and direction of the relationship differ across companies and their business conditions.

6.2 Regression

The graph compares the regression of ROE, ROA, NPM and OPM with closing stock price for all 10 companies.



The regression analysis shows that the impact of profitability ratios on closing stock prices varies across the selected companies. ROE has positive effects in HDFC Bank, M&M, ICICI Bank, Adani Enterprises, ITC and L&T, while negative effects are observed in Reliance, Infosys, TCS and HUL. ROA shows a predominantly positive relationship with stock prices, except in L&T. NPM has positive effects in Infosys, M&M, ICICI Bank, Adani Enterprises and ITC, while negative effects are found in the remaining companies. OPM also shows mixed results, with positive effects in several companies and negative effects in Reliance, HUL, ICICI Bank and L&T. Overall, no single profitability ratio consistently explains stock-price movements across all companies, as the impact varies by company, ratio and period.

7. HYPOTHESIS OF THE STUDY

- H01: There is no significant relationship between ROE and the closing stock prices of selected leading Indian companies.
- H02: There is no significant relationship between ROA and the closing stock prices of selected leading Indian companies.
- H03: There is no significant relationship between NPM and the closing stock prices of selected leading Indian companies.
- H04: There is no significant relationship between OPM and the closing stock prices of selected leading Indian companies.



Stock prices of companies, Hence Null Hypotheses is rejected in both cases. Whereas there is no significant relationship between NPM, OPM and Closing Stock prices of companies, hence failed to reject Null Hypotheses in both the cases.

8. FINDINGS AND SUGGESTIONS

Findings

- ROE, ROA, NPM & OPM has a correlation with stocks' price for certain companies from india.
- There is an association between profits and stock prices, however these factors vary from company to another so neither can be used for valuing stocks accurately enough on their own merits alone.
- The study demonstrates factors such as economic conditions, prices fluctuating because of increasing rates of money supply growth by governmental agencies.
- The findings match up well even though there is an important contribution of profit also but not every factor that predicts stock price movement.

Suggestions

- Taking only profit ratios together rather than just consider 1 while making decisions for your company/businesses is not sufficient also include other factors as well.
- The investment should go where there are profitable opportunities with high rates on dividends that can help a company grow better within an existing market segment.
- Do not believe that if stocks are going high due to emotional buying then its going to be a good time for me.
- An organization needs to assess itself within this sector and prices according to what is being done there today.

CONCLUSION

The study is concerned with an analysis of certain stock market indicators such as ROE, ROA, NPM and OPM for stock prices of big Indian corporations. There are some profits rates that affect stock prices, though they have different correlations among companies and industries. Some measures of profits were positively correlated to stocks' values whereas other ones had no significant relation at all (negative).

One of these factors that affect stock price much more significantly are profits; hence they need to consider while analyzing a firm's performance completely. However stock prices are not just about profit like it is stated from an account statement. Market prices are also affected by earnings projections, interest rates on loans & credit facilities etc.; industrial expansion.

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