Minor Research project entitled "An IMPACT OF SHAREHOLDING PATTERN ON THE FINANCIAL PERFORMANCE OF COMPANIES WITH REFERENCE TO ALUMINIUM, FOOD AND BEVERAGES, AUTOMOBILES , SOFTWARE AND PHARMACETICALS INDUSTRIES"-

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Chapter VI

EXECUTIVE SUMMARY OF MINOR RESEARCH PROJECT

The study entitled" An impact of shareholding pattern on the financial performance of companies with reference to Aluminium, Food and beverages, Automobiles, Software" was taken up the study to analyse the relationship between the share holdings patterns of different companies and their relationship among the equity data namely, sales per share, Earnings per share and cash flow per share. The study was made with data of 25 companies from different seven sectors. The purpose of this study was to know whether there is any influence of shareholdings on the companies on their sales, earnings and cash flows.

To focus the study the following objectives were formulated:-

- To study shareholding pattern of 25 companies to know the pattern of shareholding.
- To study the shareholding pattern of selected sample of companies in retail.
- To study the overall financial performance of the companies
- To examine the relationship between shareholding pattern and financial performance of the selected sample companies.
- To suggest the best shareholding pattern based on the study.

The data has been collected from the stock market year book 2006 published by equity master.com. After the analysis the report has been presented in SEVEN chapter happens to be the final Chapter. The summary and findings are as under as per the objectives of the study.

1. To study the shareholding pattern of selected sample of companies in retail.

The Indian promoters have contributed towards shares ranging between 20 and 100 percent with an average holding of 48 percent. As against this, foreign collaborations is observed in 07 companies. However the average holding is high with 42.8percentt. This is because in eight companies the shareholdings range between 50 and 70 percent. Indian financial Institutions and Mutual Funds have contributed to shares in all the 25 companies. However, the investment is at lower level. It ranges between 0 and 40 percent with an average of 13 percent.The shares contributed by FIIs and GDRs account only 15.6%. Here again the range is 0-50 %.

2.To study the present performance of the sample companies.

The performance of sample companies reveal that public sector public companies like auto ancillaries and pharmaceuticals perform extremely. This may be due to the activity performed by these companies namely, production/distribution. The other private sector public companies which performed extremely well in terms of Sales/share, EPS and CFPS are MRF, Apollo, Bajaj Auto, Reliance industries.In these companies Indian promoters shares are high.

3To individually assess the significance of the components of the shareholding pattern, Sales and Sales/share, Earnings pershare, Cash flow per share.

It is observed that the top three companies which have sales per share happen to be companies in which highest shareholdings are with Indian promoters. It is also observed that of the three, two companies are public sector public companies and one is private sector public company. The top five companies among the 25 companies which have highest EPS indicate no linkage with shareholdings. There is no relationship between EPS and the pattern of shareholdings. There is no relationship between EPS and the pattern of shareholdings. However, the analysis indicate that these companies have highest shareholdings with more than 33 percent in all the five companies.

The Cash flow per share as linked to shareholding pattern indicates that two companies with highest Indian promoters equity happen to have high CFPS. The other observation is that the CFPS is not being influenced by the shareholding pattern or percentage of share held by them.

Foreign Direct Investment Policy of India:-

Foreign investment is now freely allowed in all sectors subject to specified sectoral ceilings. All industries except a few since 2000 have been brought under the purview of automatic route. Separate approvals are required for foreign investments in sectors which require an industrial license, proposals in which the foreign collaborator has a previous venture or a tie up in India proposals relating to acquisition of shares in an existing Indian company and proposals outside the sect oral policy/caps or under sector in which FDI is not permitted.

Under the automatic route prior approval is not required. Reporting stipulations prescribed for the purpose of monitoring have to be met. The policy towards FDI inflows is revised regularly and the last one was in mid-January 2001. According to UNCTAD, 2003, a strategic FDI policy entails Government intervention in factor markets in order to develop local skills and to target FDI in areas where the country has dynamic comparative advantage. Government should aim at reducing macro level inefficiencies and improving micro level conditions. Policy measures to strength economic fundamentals would induce FDI inflows.

FINDINGS:

The above analysis clearly indicates that shareholding and percentage of shares held do not have any correlation with sales per share , EPS and CFPs. The shareholding and equity data do not have any linkage.

- Resident individuals and listed Indian companies have been permitted to invest in overseas companies listed on a recognized stock exchange and which have the shareholding of atleast 10 percent in an Indian company listed on a recognized stock exchange in India. Such investment by corporate shall not exceed 25 percent of the Indian company's networth as on the date of latest audited balance sheet. Investment by resident individuals is without any monetary limit.
- Limit on banks investment from/in overseas markets has been raised. In case of resident banks, Ads have been given freedom to undertake investments in overseas markets, subject to the limit approved by the banks Board of Directors. Banks in India have the freedom to invest the undeployed funds in overseas market in long term fixed income securities rated.
- Banks are allowed to invest their capital in overseas money market of debt instruments without any percentage or absolute limit subject to approval by their board of directors.
- Indian companies are allowed to access ADR/GDR markets through an automatic route without prior approval subject to specified norms and reporting requirements. They can invest abroad funds raised through ADRs/GDRs in banks deposits/certificates of deposit, treasury bills and other monetary instruments pending repatriation/utilization of such funds.
- Indian companies with a proven track record were eligible to invest upto 100 percent of their net worth within the overall limit in investment in a foreign engaged in any business activity. The overall limit has been done away with.
- Exporters are permitted to extend trade related loans/advance to overseas importers out of their exchange earners foreign currency balances without any ceiling.

- Foreign investment by non-resident corporate/NRIs under the Reserve Bank's automatic route has been substantially expanded to include almost all items/activities, for investment under FDI.
- Indian Companies have been permitted to prepay existing FCCBs subject to certain conditions.

SUGGESTION:

The investors need not consider the shareholding pattern of the companies. Neither it is closely held companies like public sector companies with large free float, which influence the financial performance of the companies. The performance of the companies depend on market for their products and how strong their fundamentals are with the organization. Therefore, in assessing performance of companies their operational activities more relevant than their shareholding pattern. In addition to the above there should be protection from Government, financial Institutions for investors from insider trading activities, protect the interest from risk involved and stock exchanges Public sector, private companies should be as far as possible transparent in their operational and administrative activities by publishing to their annual reports and the financial statements.

Globalisation –the process through which an increasingly free flow of ideas, people, goods , services and capital leads to the integration of economies and societies-has brought rising prosperity to the countries partly by making sophisticated technologies available to less advanced countries.

The globalization of national economies has advanced significantly as real economic activity –Production, consumption and physical investment-has been dispersed over different countries or refines. Today, the components of a television set may be manufactured in one country and assembled in another and the final product sold to consumers around the world. New multinational companies have been created, each producing and distributing its goods and services through networks that span the globe, while established multinational have expanded internationally by merging with or acquiring foreign companies. Many countries have lowered barriers to international trade, and cross-border flows in products and services have increased significantly.

The liberalization of national financial and capital markets, coupled with the rapid improvements in information technology and the globalization of national economies, has catalyzed financial innovation and spurred the growth of cross-border capital movements. The globalization of financial intermediation is partly a response to the demand for mechanisms to intermediate cross-border flow and partly a response to declining barriers to trade in financial services and liberalized rules governing the entry of foreign financial institutions into domestic capital markets.

Competition among the providers of intermediary services has increased because of technological advance and financial liberalization. The regulatory authorities in many countries have altered rules governing financial intermediation to allow a broader range of institutions to provide financial services, and new classes of non bank financial institutions, including institutional investors,have emerged. Investment banks, securities firms, asset managers, mutual funds, insurance companies, speciality and trade finance companies, hedge funds and even telecommunications, software and food companies are starting to provide services similar to those traditionally provided by banks.

During the past two decades, financial markets around the world have become increasingly interconnected. Financial globalization has brough considerable benefits to national economies and to investors and savers, but it has also changed the structure of markets, creating new risks and challenges for market participants and policy makers.