A STUDY ON MOVEMENT OF GDP, BANK RATE& DOLLAR RATE AND THE SHARE PRICE OF TATA MOTORS LTD AND MARUTI SUZUKI INDIA LTD

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ABSTRACT

The study focuses on the movement of selected macro-economic indicators and the investor's investment towards the automobile sector in India. The automobile industry is a prominent part of the manufacturing sector and is considered to be an indicator of economic development of any country. It is also a technology and knowledge intensive industry because it demands high performance and quality parts. In India, the automobile industry occupies a prominent place due to its deep forward and backward linkages with many key segments of the economy. This industry has a strong multiplier effect and is capable of being the driver of economic growth. This study focuses on performance of selected automobile company's stock. The study includes the effect of macroeconomic indicators on the selected companies listed in Bombay Stock Exchange. The study shows significant relationship between macroeconomic indicators and the share price of selected automobile companies. Analysis are made based on the Gross Domestic Product, Bank rate, Dollar rate and trends are shown accordingly.

Keywords: Investment, Automobile industry, macroeconomic indicators, Bombay Stock Exchange, Multiplier effect, Share price.

INTRODUCTION

The economy of India is a developing mixed economy. The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings, investment rates, and increasing integration into the global economy. Indian stock market is considered to be important in its development of the volume of trade and the use of technology which in turn attracts foreign investors. Indian stock market has witnessed spectacular change in the recent decades. The market has undergone huge reform in the past few years. The economic instability in the global and national context has made its influence on the market movement.

The linkage of stock market with macroeconomic variables has always been an area of interest among investors and policy makers. The Indian stock market is prone to the macroeconomic uncertainty in the country. The stock markets and their indicators in the form of indices, reflect the potential, the direction and health of the economy. There is extensive group of macroeconomic variables that influences the stock prices in the share market. If a country's economy is performing well and expected to grow at vigorous pace, the market is frequently expected to imitate the situation. The stock market of emerging economics like India, carries huge expectations of the investors.

STATEMENT OF THE PROBLEM

Investors are able to buy shares or stocks of the company once the company's shares are launched in the market. The performance of the stocks of automobile industry being an important indicator in the functioning of economic system has high impact on the Indian stock market indices. The market prices of the automobile industry's stocks are not stagnant and they are affected by various factors. Macroeconomic indicators have significant effect on the stock prices of automobile industry. Investors attempt to forecast the stock price of automobile industry in order to maximise their investment worth, but, are less aware of the economic structure and the indicators influencing the share price of the stocks. An attempt has been made by the researcher to analyse the GDP, Dollar rate, Bank rate and the share price of Tata Motors Ltd & Maruti Suzuki Ltd companies listed in the Bombay Stock Exchange.

LITERATURE REVIEW

Samvegpatel (2012) [1] undertook a study on "The effect of macroeconomic determinants on the performance of the Indian stock market". The study investigates the effect of macroeconomic determinants on the performance of the Indian Stock Market using monthly data over the period January 1991 to December 2011 for eight macroeconomic variables, namely, Interest Rate, Inflation, Exchange Rate, Index of Industrial Production, Money Supply, Gold Price, Silver Price & Oil Price, and two stock market indices namely Sensex and S&P CNX Nifty. The findings of this study have some important policy implications. Mostly prices of these commodities are determined at the global level, but still by proper import duty and local taxes, policy makers should try to maintain competitive price levels. Finally, autonomous regulatory bodies and visionary system of government can definitely contribute in efficient working and development of the Indian Stock Market.

Gopi K. Prachetas and Mihir Dash (2012) [2] undertook their study on "Impact of macroeconomic Factors on Sensex Returns". Movements in SENSEX are a result of a complex interplay of a host of factors. Hence, it is not easy to make a correct assessment of its movement, and the task becomes all the more difficult when SENSEX witnesses a lot of volatility. Macroeconomic factors do have a lot of influence on the SENSEX movements. The results of the study indicate that the only macroeconomic variables having a significant impact on SENSEX returns were the Mumbai inter-bank offered rate (MIBOR), INR/USD exchange rates, and foreign exchange reserves. The former variable represents interest rates, while the latter two variables are related to currencies/exchange rates.

Pooja singh (2013) [3] undertook a study on "Indian stock market and macroeconomic factors in current scenario". This paper is an attempt to understand the relationship between macroeconomic variables and Indian stock market. The multivariate stepwise regression analysis helps to understand the impact of macroeconomic factors on Indian stock market. Granger's causality test has been applied to analyze the dynamic causal relationship among the variables. The data used in the study is in the monthly frequency and period of the study has been considered from January 2011 to December 2012. Thus, any movement in the value of exchange rate has influence on stock market. The causality is running from index to the variables in case of trade deficit and foreign institutional investors. There exists requirement for the initiative to be taken by government to reduce interest of investors in yellow metal and enhance the investment in share market through improving the confidence level of the investors in the Indian stock market.

Venkatraja. B (2014) [4] undertook a study on "Impact of Macroeconomic Variables on Stock Market Performance in India: An Empirical Analysis". The study investigates the relationship between the Indian stock market performance (BSE Sensex) and five macroeconomic variables, namely, index of industrial production, wholesale price index, gold price, foreign institutional investment and real effective exchange rate over the period April 2010- June 2014 using monthly data. From the results, it appears that 82 per cent of variation in Sensex is explained by the five selected macroeconomic factors. Wholesale price index, index of industrial production, foreign institutional investment and real effective exchange rate have high degree of positive influence on Sensex. This leads to the conclusion that inflation, inflow of foreign institutional investment, exchange rate and gold price significantly impact the Indian stock market performance.

RESEARCH METHODOLOGY

Research Design: It is a combination of both descriptive and analytical method of study.

Data collection: The study was completely based on the secondary data mainly collected from the website of BSE, newspapers, magazines, research papers etc.

Period of Study: The study period is 5 years from 2013-2018.

Tools used for analysis:

- Regression Analysis

OBJECTIVES OF THE STUDY.

- To analyse the impact of and GDP and the share price of selected automobile companies.
- To evaluate the impact of Bank rate and Dollar rate and the share price selected automobile companies.

DATA ANALYSIS

REGRESSION ANALYSIS

III. THE IMPACT OF SELECTED MACROECONOMIC INDICATORS ON THE SHARE PRICE OF SELECTED AUTOMOBILE COMPANIES

TATA MOTORS LTD

GROSS DOMESTIC PRODUCT AND SHARE PRICE OF TATA MOTORS LTD

H_0: GDP has no significant effect on Tata motors Ltd

Table 1.2

Regression analysis – Gross Domestic Product and share price of Tata Motors Ltd

Independent variable	**Constant**	**Residual**	**Std. Error**	**T**	**p-value**	**R**	**Adj. R Square**
Gross domestic Product	311.043	1.315	19.291	0.068	0.947	0.024	0.124

The t-test (0.068) reveals that the p-value (0.947) is greater than 0.05. Hence the null hypothesis is accepted. It indicates that the inflation rate has no significant effect on Tata Motors Ltd. It is inferred that the variance in inflation rate by 1 unit contributes to the change in Tata Motors Ltd by 1.315 units.

It is concluded that GDP has no significant effect on Tata Motors Ltd.

DOLLAR RATE AND SHARE PRICE OF TATA MOTORS LTD

H_0: Dollar rate has significant effect on Tata motors Ltd

Table 1.3

Regression analysis – Dollar rate and share price of Tata Motors Ltd

Independent variable	Constant	Residual	Std. Error	T	p-value	R	Adj. R Square
Dollar rate	-395.162	12.820	2.840	4.514	0.002	0.847	0.683

The t-test (4.514) reveals that the p-value (0.002) is less than 0.05. Hence the null hypothesis is rejected. It indicates that the Dollar rate has significant effect on Tata Motors Ltd. It is inferred that the variance in Dollar rate by 1 unit contributes to the change in Tata Motors Ltd by 12.820 units.

It is concluded that Dollar rate has significant effect on Tata Motors Ltd.

BANK RATE AND SHARE PRICE OF TATA MOTORS LTD

H_0: Bank rate has no significant effect on Tata motors Ltd

Table 1.4

Regression analysis – Bank rate and share price of Tata Motors Ltd

Independent variable	Constant	Residual	Std. Error	T	p-value	R	Adj. R Square
Bank rate	1333.8	-97.181	31.889	-3.047	0.016	0.733	0.479

The t-test (-3.047) reveals that the p-value (0.016) is lesser than 0.05. Hence the null hypothesis is rejected. It indicates that the Bank rate has significant effect on Tata Motors Ltd. It is inferred that the variance in rate by 1 unit contributes to the change in Tata Motors Ltd by -97.181units.

It is concluded that Bank rate has significant effect on Tata Motors Ltd.

GROSS DOMESCTIC PRODUCT AND SHARE PRICE OF MARUTI SUZUKI INDIA LTD

H_0: Gross domestic product has no significant effect on Maruti Suzuki India Ltd.

Table 2.2

Regression – Gross domestic product and share price of Maruti Suzuki India Ltd

Independent variable	Constant	Residual	Std. Error	T	p-value	R	Adj. R Square
GDP	2289.4	114.8	369.30	0.311	0.764	0.109	0.112

The t-test (0.311) reveals that the p-value (0.764) is greater than 0.05. Hence the null hypothesis is accepted. It indicates that the Gross domestic product has no significant effect on Maruti Suzuki India Ltd. It is inferred that the variance in Gross domestic product by 1 unit contributes to the change in Maruti Suzuki India Ltd by 114.8 units.

It is concluded that Gross domestic product has no significant effect on Maruti Suzuki India Ltd.

DOLLAR RATE AND SHARE PRICE OF MARUTI SUZUKI INDIA LTD

H_0: Dollar rate has no significant effect on Maruti Suzuki India Ltd.

Table 2.3

Regression – Dollar rate and share price of Maruti Suzuki India Ltd

Independent variable	Constant	Residual	Std. Error	T	p-value	R	Adj. R Square
Dollar rate	-8858.07	214.121	69.82	3.067	0.015	0.735	0.483

The t-test (3.067) reveals that the p-value (0.015) is less than 0.05. Hence the null hypothesis is rejected. It indicates that the Dollar rate has significant effect on Maruti Suzuki India Ltd. It is inferred that the variance in Dollar rate by 1 unit contributes to the change in Maruti Suzuki India Ltd by 214.121 units.

It is concluded that Dollar rate has significant effect on Maruti Suzuki India Ltd.

BANK RATE AND SHARE PRICE OF MARUTI SUZUKI INDIA LTD

H_0: Bank rate has no significant effect on Maruti Suzuki India Ltd.

Table 2.4

Regression – Bank rate and share price of Maruti Suzuki India Ltd

Independent variable	**Constant**	**Residual**	**Std. Error**	**T**	**p-value**	**R**	**Adj. R Square**
Bank rate	18707.38	-1497.36	731.016	-2.048	0.075	0.587	0.262

The t-test (-1497.36) reveals that the p-value (0.075) is greater than 0.05. Hence the null hypothesis is accepted. It indicates that the Bank rate has no significant effect on Maruti Suzuki India Ltd. It is inferred that the variance in Bank rate by 1 unit contributes to the change in Maruti Suzuki India Ltd by -1497.36 units.

It is concluded that Bank rate has no significant effect on Maruti Suzuki India Ltd.

FINDINGS

Regression Analysis

- GDP has no significant effect on Tata Motors Ltd.
- Dollar rate has significant effect on Tata Motors Ltd.
- Bank rate has significant effect on Tata Motors Ltd.
- Gross domestic product has no significant effect on Maruti Suzuki India Ltd.

- Dollar rate has significant effect on Maruti Suzuki India Ltd.
- Bank rate has no significant effect on Maruti Suzuki India Ltd.

SUGGESTIONS

Investors

- The study inferred that the movement of automobile sector stocks are mostly influenced by the underlying factors such as Gross domestic product, Bank rate, & Dollar rate. Investors should analyse the above mentioned macroeconomic indicators before making investment in automobile sector in India.
- Investors should evaluate the performance of the automobile companies regularly, as the study revealed that the selected macroeconomic indicators have significant effect on the automobile sector.
- Investors should build a diversified portfolio so that the risk is distributed among the selected securities. They should align their investments with their time horizon in order to raise the maximum benefit out of it.

Government

- Government should protect investors by maintaining fair, orderly & efficient functioning of the securities market. It should regularly monitor & take necessary decisions in controlling the macroeconomic indicators which influences the share price of the company.
- Government should take necessary steps to develop the Indian economy by monitoring the economic factors, which ultimately results in the development of the stock market condition in India.

SEBI

- SEBI should register & regulate the intermediaries of the business like brokers, transfer agents, bankers, trustees, registrars, portfolio managers, investment consultants, merchant bankers, etc. It should make sure that the frauds and unfair trading practices relating to securities market is eliminated.

- SEBI should carry out investment awareness & educational programmes across the rural and backward areas in order to educate them about the importance of investment. It should inspect and audit the security exchanges (SEs) and intermediaries.

CONCLUSION

The automobile industry is among the most significant industrial sectors in the modern economy. It is the symbol of technical marvel by mankind. The industry has attracted Foreign Direct Investment (FDI) worth US$ 19.29 billion during the period April 2000 to June 2018, according to data released by Department of Industrial Policy and Promotion (DIPP).As per Automotive Mission Plan (AMP) the Indian automobile sector has the potential to generate upto US$ 300 billion annual revenue by the end of 2026, create 65 million additional jobs and contribute over 12% to India's Gross domestic product. The AMP seeks to make this industry the engine of "Make in India" initiative. Indian automobile industry's core competencies, strengths and innovations have attracted significant investments from major countries across the world. Automobile companies stock ensures its risk on the basis of economic indicators. There may be fluctuation in the share price of automobile companies at times as it is subject to market risk. Therefore, investors should regularly monitor and analyse the economic indicators as well as the company's potential risk & return in the market before making an investment.

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