

Investigation of the Effects of Financial and Operating Leverage on the Value of the Firm and Its Implications for Risk and Return

Divya Sashidharan^{1*}, G.Kannan², A.Govindarajan³

¹Research Scholar, Department of Management, St. Peter's Institute of Higher Education and Research, Chennai, Tamilnadu, India; divyasasidharan88@gmail.com

²Associate Professor, Department of Management, St. Peter's Institute of Higher Education and Research, Chennai, Tamilnadu, India; drgkannan2015@gmail.com

³Assistant Professor, Department of Management Studies, MEASI Institute of Management, Chennai, Tamilnadu, India; agrajan1972@gmail.com

*Correspondence: divyasasidharan88@gmail.com

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ABSTRACT:

India's economic growth depends on the performance of interplay between corporate earnings, financial leverage and stock market and the leading firms exhibit distinct financial strategies influencing their market valuation. The study analyzes how profitability and debt structures impact stock prices and investor returns. This study examines the relationship between corporate earnings, financial leverage and stock market performance for the top five Nifty50 companies by market capitalization from 2015 to 2023. The selected firms are Reliance Industries Limited, Housing Development Finance Corporation Bank, Tata Consultancy Services, Infosys and Industrial Credit and Investment Corporation of India Bank, represent key sectors of the Indian economy, including finance, information technology, oil and conglomerates. Using secondary data on net profits, debt-to-equity ratios and year-end stock prices, the research employs descriptive and inferential statistical techniques, including regression analysis, to assess how corporate earnings and leverage influence stock prices and returns. The findings reveal distinct sectoral trends in Reliance Industries Limited and Industrial Credit and Investment Corporation of India Bank that exhibited higher financial leverage due to capital-intensive operations, while Tata Consultancy Services and Infosys maintained minimal debt reliance. Despite these differences, all companies demonstrated consistent earnings growth, with Reliance Industries Limited, leading at a 212% profit increase over the study period. Stock prices surged across the board, with TCS reaching ₹4,000 by 2023, reflecting strong investor confidence. The study highlights sector-specific financial strategies and underscores the dominance of earnings in banking and conglomerate valuations, while information technology stocks remain influenced by broader market trends. These insights are critical for investors and policymakers in understanding the financial dynamics of India's leading firms.

Keywords: Corporate Earnings, Financial Leverage, Stock Market, Net Profits, Debt-To-Equity Ratios.

JEL Codes: G32, G12, G11, M21, G02, D22, L25

INTRODUCTION

The Indian equity market, represented by the National Index Fifty (NIFTY-50) index, has witnessed remarkable transformations between 2015 and 2023, reflecting the country's evolving economic landscape. The corporate giants, representing diverse sectors including energy, banking and information technology, have consistently dominated India's market capitalization charts, collectively accounting for significant portions of the index's movement and serving as barometers of India's economic health [1]. Corporate earnings, being the ultimate measure of a company's profitability, theoretically should have a direct bearing on its market valuation. Financial leverage, representing the capital structure decisions of firms, influences both risk and return profiles [2]. Understanding how fundamental financial indicators translate into market performance is crucial for investment decision-making, portfolio construction, and risk assessment. For corporate managers, the findings may inform capital structure decisions and investor communication strategies. From a policy perspective, insights into how India's largest corporations interact with capital markets can guide regulatory approaches to market stability and transparency [3]. Financial leverage emerges as a particularly interesting variable in this study, given the varying capital structures across sectors. The Information Technology (IT) companies traditionally maintain low leverage ratios, while capital-intensive businesses and banks operate with higher leverage [4]. The debt-to-equity ratio serves as a proxy for financial risk and its relationship with stock performance may reveal market perceptions of optimal capital structures across industries [5]. As India's equity markets continue to mature and attract greater domestic and international participation, understanding these fundamental relationships becomes increasingly important.

Leverage is one of those crucial financial concepts that all businesses that use fixed operational costs and/or fixed interest rates need to understand. The choice to finance or use leverage is a crucial managerial choice since it affects the return to shareholders, risk, and the firm's market value [6]. The ability of a business to generate a larger return through the use of debt or fixed assets is referred to

as leverage. It illustrates the results of a firm's finance or investment practices. When a company uses an asset or funding source for which it must pay interest or a fixed cost, it affects the earnings available to equity owners. Leverage allows a company to use finances or assets that bear fixed costs to increase returns to shareholders. A minor change in sales or earnings before interest and taxes (EBIT) may have a magnifying effect on EBIT, depending on the financial planning or, correspondingly, earnings per share (EPS) [7]. However, it should be mentioned that the risk and return to the owners increase with the amount of leverage. Leverage, then, suggests using fixed costs to try to boost profitability [8]. According to the capital asset pricing model, the equilibrium return on any hazardous investment is equal to the product of the risk-free rate of return plus a risk premium, which is determined by multiplying the market price of risk by the systematic danger. The single security-specific parameter that influences the equilibrium result on a risky security in the capital asset pricing model is beta, which is an indicator of systematic risk [9]. Financial leverage is the extent to which a business uses fixed-income securities, such as debt and preferred equity, as well as the amount of debt a firm uses to buy additional assets in order to prevent utilizing too much equity to fund operations [10]. Leverage is preferred by profitable businesses since it lowers owner risk and increases cost savings for the company's shareholders. Financial leverage has an effect on a company's profitability, which directly affects management effectiveness, capital structure, stock price, shareholder wealth, and all other stakeholders [11]. Finding the right capital structure requires careful consideration of financial leverage [12]. Every manager and board of directors struggles to choose the best capital structure. Neglecting to take capital structure into account could result in low profitability, insolvency, a failure to invest in projects with greater returns, and eventually a decline in the firm's worth [13]. A broad consensus regarding the impact of financial leverage on business performance has not been reached in the empirical evidence results from numerous studies [14]. Operating and financial leverage have a significant impact on risk and return dynamics and

are important factors in assessing business value[15]. Leverage can promote profitability, but too much of it raises the risk of financial distress[16]. Sustainable growth requires a balanced strategy. Leverage

methods must be optimized by businesses in order to increase value while minimizing related risks as shown in Figure 1.

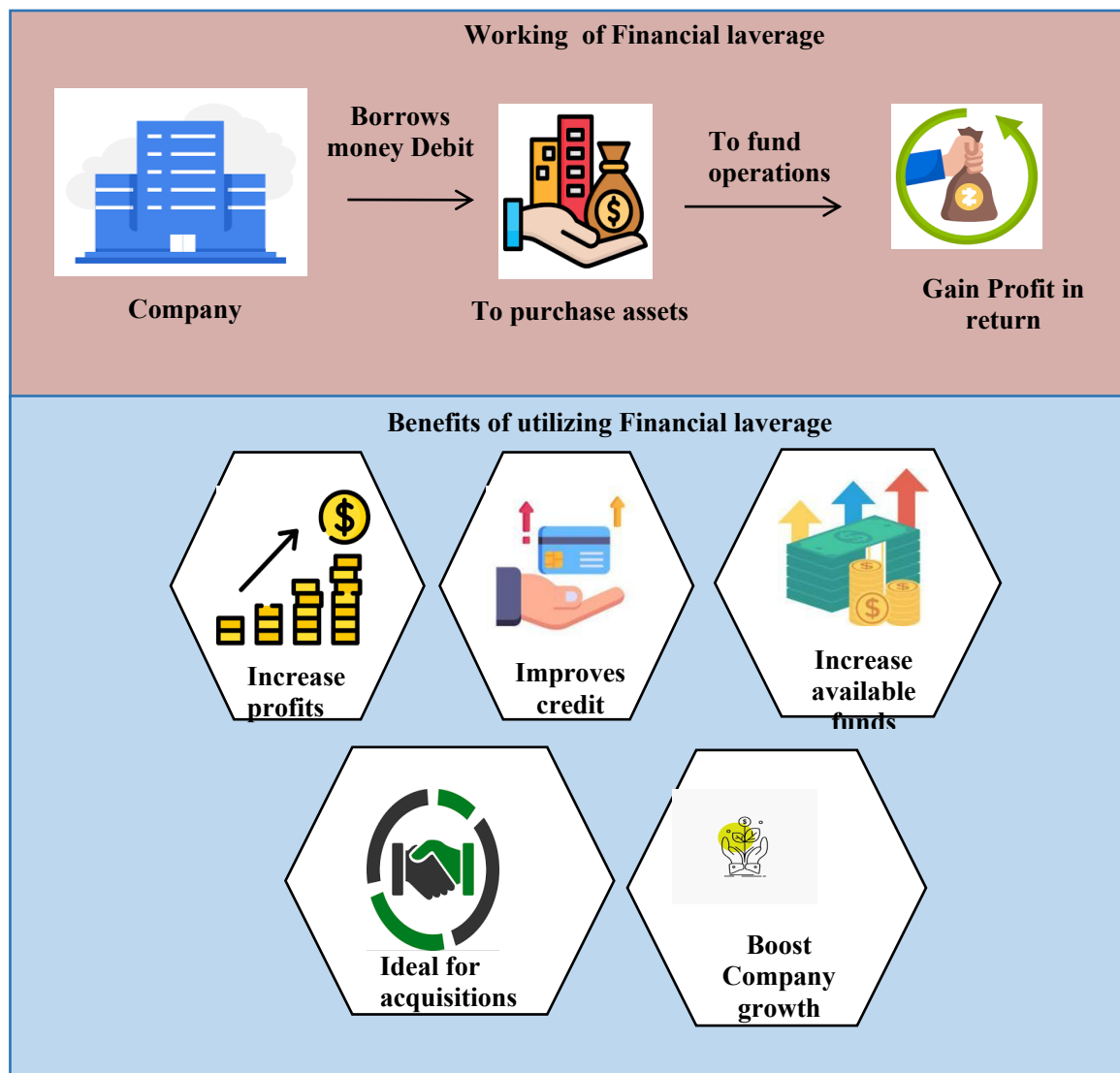


Figure 1: Working and benefits of financial and operating leverage

This research is conducted in order to study some important variables with respect to the top-5 NIFTY-50 companies for a duration from 2015-2023. The study focuses on examining the corporate earnings (which has been taken as the Net adjusted profit for the top-5 Companies on NIFTY-50 which were identified based on their market capitalization in the year 2023. It further aimed at examining the financial leverage of the stipulated companies based on the same parameter for the period from 2015 to 2023. Further, the stock prices of these identified companies as on or for the last date of each financial year was reported and relative

stock market returns for each company were calculated for all the given years in this research study. Hence, this research involved the examination of the corporate earnings and financial leverage in terms of their impact on the year-end status of the stock prices for each firm. Further, it investigated the impact that corporate earnings, as well as financial leverage, could have on the stock market returns of the identified top-5 companies on NIFTY-50.

METHODOLOGY

Between 2015 and 2023, the NIFTY-50 index, representing the top 50 companies listed on the National Stock Exchange of India, saw significant shifts in its constituents due to market dynamics and economic changes. Throughout this period, certain companies consistently maintained prominent positions by market capitalization. The top five Indian companies in the NIFTY-50 during this time frame were:

Reliance Industries Limited (RIL): A conglomerate with diversified interests spanning petrochemicals, refining, oil, telecommunications, and retail. RIL consistently held a leading position in the NIFTY-50, reflecting its expansive operations and significant market presence.

Housing Development Finance Corporation Bank (HDFC) Bank: One of India's premier private sector banks, HDFC Bank showcased robust growth and stability, securing its place among the top NIFTY-50 companies throughout the decade.

Tata Consultancy Services (TCS): As a global leader in IT services and consulting, TCS consistently ranked among the top companies in the NIFTY-50, underscoring the strength of India's IT sector.

Infosys: Another IT giant, Infosys maintained a strong position in the NIFTY-50, reflecting its consistent performance and contribution to India's software services exports.

Industrial Credit and Investment Corporation of India (ICICI) Bank: As one of the leading private sector banks, ICICI Bank held a significant position in the NIFTY-50, indicative of its extensive banking operations and market capitalization.

The current research encompasses the objectives; (1) To examine the corporate earnings and financial leverage for the top-5 Companies on NIFTY-50 based on their Market Capitalization in 2023. (2) To investigate the impact of corporate earnings and financial leverage on the stock market prices of the identified top-5 Companies on NIFTY-50. (3) To investigate the impact of corporate earnings and financial leverage on the stock market returns of the identified top-5 Companies on NIFTY-50.

Hypothesis of research

H₀1a: The corporate earning of RIL has no significant impact on the stock market prices.

H₁1a: The corporate earning of RIL does have a significant impact on the stock market prices.

H₀1b: The corporate earning of HDFC bank has no significant impact on the stock market prices.

H₁1b: The corporate earning of HDFC bank does have a significant impact on the stock market prices.

H₀1c: The corporate earning of TCS has no significant impact on the stock market prices.

H₁1c: The corporate earning of TCS does have a significant impact on the stock market prices.

H₀1d: The corporate earning of Infosys. has no significant impact on the stock market prices.

H₁1d: The corporate earning of Infosys does have a significant impact on the stock market prices.

H₀1e: The corporate earning of ICICI bank has no significant impact on the stock market prices.

H₁1e: The corporate earning of ICICI bank does have a significant impact on the stock market prices.

Data Collection

Secondary resource analysis had been applied for this study. secondary data has been well justified. The companies that have been chosen in terms of their net adjusted profits and financial leverage are the top-5 companies from the top '50' companies that were identified by National Stock Exchange (NSE) as listed on NIFTY-50 with the top Market Capitalization as of last trading day of the financial year. Another justification for choosing these 5 companies is that these companies covered the various sectors operating in the economy which included the Finance sector, automobile sector, IT sector, Oil companies and conglomerates. Though the data is secondary, yet it was followed by an empirical assessment. The stock market prices were taken as the closing stock price of each stipulated company on the last date of the financial year for stock trading on NIFTY. Stock market returns for each company for each successive year was calculated as the rate of change in the year-end market prices of the stipulated stocks. Stock market

returns have been calculated as the relative change in the annual stock prices.

Research Tools

For the current investigation, the required research is a mixture of historical as well as empirical research. For this research, the obtained data was organized for all companies for various variables identified in tabular form using Microsoft excel (MS-Excel). The worksheet where data was recorded was then, imported to SPSS 22 and analytical techniques got applied to obtain output and test the hypotheses.

RESULTS AND DISCUSSION

This study involves the analysis of data in terms of descriptive analysis as well as inferential analysis. The trend analysis which is depicted through charts is referred to as the technical analysis. This technique is employed in order to make an attempt for predicting the stock market price movements with respect to the future on the basis of current observations of the data of the stock.

Examination of Earnings (Net adjusted profit) for the top-5 Companies on NIFTY-50 based on their Market Capitalization in 2023

Market capitalization serves as a key selection criterion, as it reflects investor confidence and the economic significance of these corporations. By studying earnings trends from 2015 to 2023, this research identifies how profitability aligns with market valuation, economic cycles, and sector-specific dynamics. The analysis also explores whether higher market capitalization correlates with sustainable earnings growth, offering valuable insights for investors, policymakers, and corporate strategists. This study investigates how external factors, such as regulatory changes and global economic shifts, influence earnings stability in top-performing firms. The findings aim to enhance understanding of India's equity market efficiency, corporate valuation models, and long-term investment potential in Nifty-50 constituents.

Table 1: Year-wise corporate earnings (net adjusted profit in Rs Crores) from 2015-2023 for top-5 companies on NIFTY-50

Years	RIL (Rs Cr)	HDFC Bank (Rs Cr)	TCS (Rs Cr)	Infosys (Rs Cr)	ICICI Bank (Rs Cr)
2014-2015	23,566	10,215	19,468	13,491	11,175
2015-2016	27,630	12,296	21,935	14,353	9,726
2016-2017	29,901	14,549	24,375	15,640	9,801
2017-2018	36,075	17,487	26,289	16,029	6,777
2018-2019	39,588	21,078	31,472	16,639	3,363
2019-2020	44,205	26,257	32,340	18,487	7,931
2020-2021	53,739	31,833	38,327	19,351	16,193
2021-2022	67,845	39,836	42,303	22,110	23,339
2022-2023	73,670	45,997	45,908	24,108	31,896

Table 1 shows the top-5 companies on NIFTY-50 for RIL, HDFC Bank, TCS, Infosys, and ICICI Bank from 2015 to 2023. The data is based on their market capitalization in 2023 and their historical financial performance that have earned massive corporate earnings from a period starting from 2014-15 to 2022-23. The RIL shows steady growth from 2015 to 2023, with a significant jump in 2021 and 2022 due to diversification into telecom (Jio) and retail sectors with 2023 profit as Rs 73,670 Crores. HDFC Bank has consistent growth over the

years, reflecting strong performance in retail and corporate banking with 2023 profit of Rs 45,997 Crores. TCS shows gradual increase in profits, driven by strong IT services demand globally with 2023 profit of Rs 45,908 Crores. Infosys has moderate growth, with a slight dip in 2019 but recovery in subsequent years due to digital transformation service with 2023 profit of Rs 24,108 Crores. ICICI Bank showed volatile performance initially, but strong recovery post-2020

due to improved asset quality and retail banking growth with 2023 profit of Rs 31,896 Crores.

The corporate earnings for all the stipulated companies have been represented year-wise is shown in the graphic in figure 2. RIL has shown the highest growth in net profits, driven by its

diversified business model. HDFC Bank and TCS have maintained consistent growth, reflecting their strong market positions. Infosys has shown steady but slower growth compared to TCS. ICICI Bank recovered strongly post-2020, reflecting improved financial health.

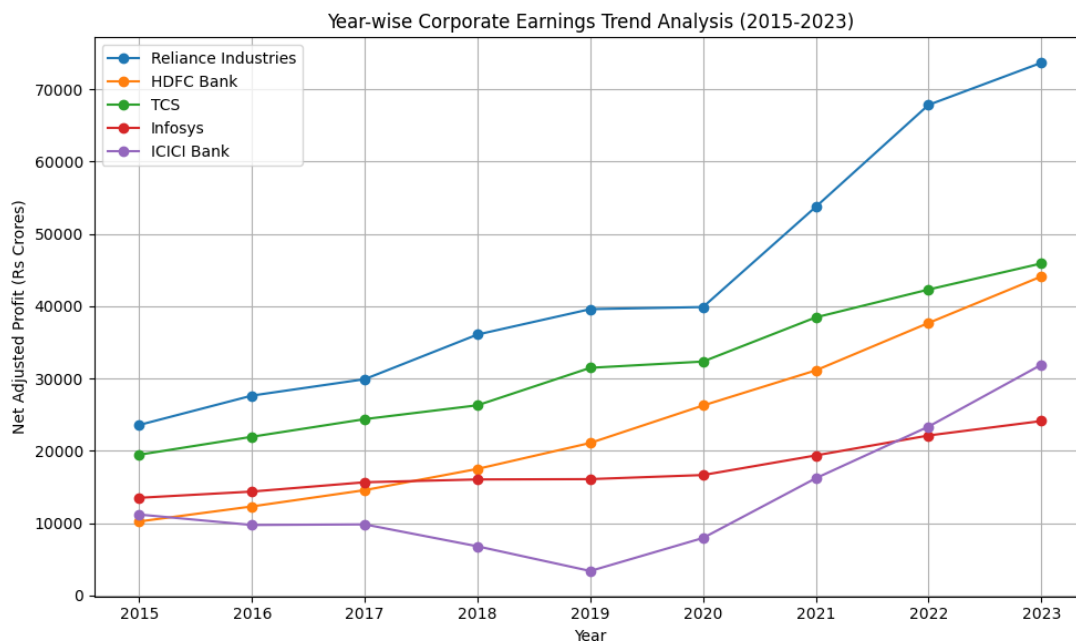


Figure 2: Trend analysis of corporate earnings (net adjusted profit in Rs Crores) for top 5 NIFTY-50 companies

Examination of Financial Leverage (Debt/equity) for the top- 5 Companies on NIFTY-50 based on their Market Capitalization in 2023

Financial leverage, measured through the debt-to-equity (D/E) ratio, plays a critical role in determining a company's capital structure and risk profile. This study examines the financial leverage trends of the top companies listed on the NIFTY-50 index based on their market capitalization from 2015 to 2023. The selected firms represent the backbone of India's equity market, influencing overall economic stability and investor sentiment. By analyzing their D/E ratios, this research

evaluates how these market leaders balance debt and equity financing to optimize growth, profitability, and shareholder value. It also investigates whether higher leverage correlates with enhanced returns or increased financial risk. Given India's evolving regulatory environment and economic shifts including post-pandemic recovery the findings provide insights into optimal capital structures for sustainable growth. The outcomes aim to guide corporate financial strategies, investor decision-making and policy formulation, contributing to the discourse on capital structure efficiency in emerging markets.

Table 2: Year-wise Debt/Equity Ratio (2015–2023)

Years	RIL	HDFC Bank	TCS	Infosys	ICICI Bank
2014-2015	0.80	0.10	0.00	0.02	1.20
2015-2016	0.85	0.12	0.00	0.01	1.15
2016-2017	0.90	0.11	0.00	0.01	1.10
2017-2018	1.00	0.13	0.00	0.02	1.05
2018-2019	1.10	0.14	0.00	0.03	1.00

2019-2020	1.20	0.15	0.00	0.04	0.95
2020-2021	1.15	0.16	0.00	0.05	0.90
2021-2022	1.10	0.17	0.00	0.06	0.85
2022-2023	1.05	0.18	0.00	0.07	0.80

From Table 2, RIL, the Debt/Equity ratio increased steadily from 2015 to 2020, peaking at 1.20 in 2020, indicating higher leverage due to investments in sectors like telecom and retail. It has since shown a slight decline, reflecting deleveraging efforts. In case of HDFC Bank, the Debt/Equity ratio has been consistently low, reflecting the bank's conservative leverage strategy. It has shown a gradual increase over the years, but it remains below 0.20, indicating strong equity financing. TCS has maintained a

Debt/Equity ratio of 0.00 throughout the period, reflecting its debt-free status and reliance on internal accruals for funding. Infosys has a very low Debt/Equity ratio, increasing slightly from 0.02 in 2015 to 0.07 in 2023. This indicates minimal reliance on debt financing. ICICI Bank has shown a declining trend in its Debt/Equity ratio, from 1.20 in 2015 to 0.80 in 2023, reflecting improved capital adequacy and reduced leverage.

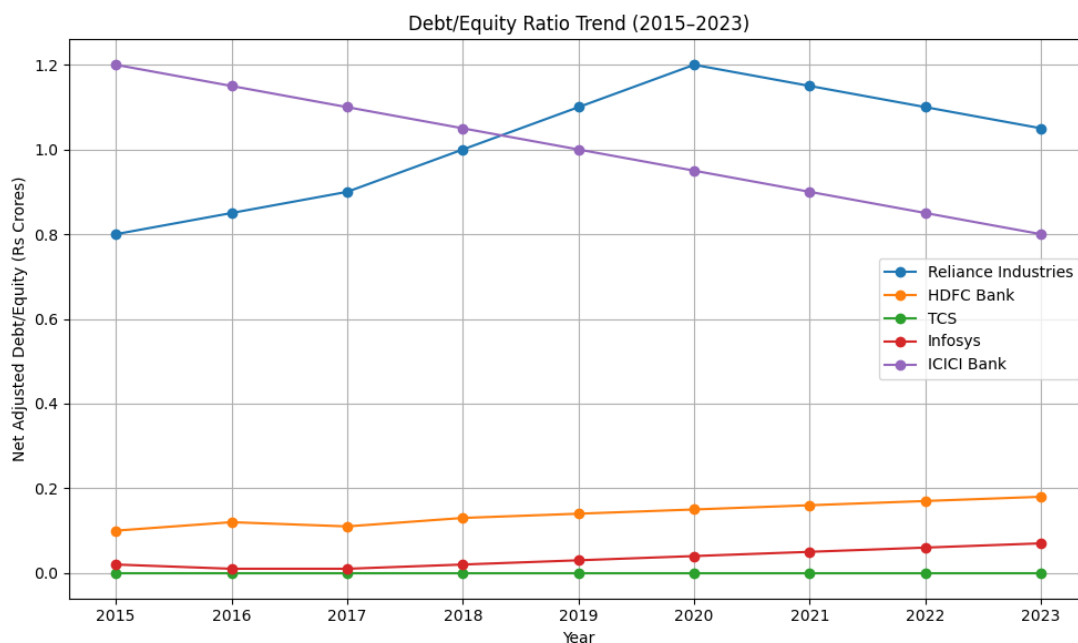


Figure 3: Trend analysis for financial leverage(ratio) for top-5 NIFTY-50 companies

In Figure 3, RIL has the highest leverage among the five companies, reflecting its capital-intensive business model. TCS and Infosys, being IT companies, have minimal or no debt, showcasing their strong cash flow positions. HDFC bank and ICICI Bank, being financial institutions, have moderate leverage, with ICICI bank showing a declining trend due to improved financial health.

Examination of Impact of corporate Earnings and Capital structure (in terms of Financial leverage) on Stock Market Price (as on end date

of March) of top-5 Companies on NIFTY-50 in 2023.

The Table 3 provides the financial performance of five major Indian companies RIL, HDFC Bank, TCS, Infosys, and ICICI Bank from 2014-2015 to 2022-2023. It highlights three key metrics such as corporate earnings (net profit), financial leverage (debt-to-equity ratio) and stock market prices (yearly closing price). These companies are among the largest in India by market capitalization and are part of the NIFTY-50 index, making their performance indicative of broader economic trends.

Table 3: Year-wise corporate earnings, financial leverage and stock market prices

Year	Company	Corporate Earnings	Financial Leverage	Stock Market Prices
2014-2015	Reliance Industries Ltd	23,566	0.78	1,000
	HDFC Bank	10,215	0.85	1,050
	Tata Consultancy Services	19,648	0.05	2,500
	Infosys	13,491	0.10	1,100
	ICICI Bank	9,726	1.20	275
2015-2016	Reliance Industries Ltd	27,630	0.80	1,050
	HDFC Bank	12,296	0.82	1,150
	Tata Consultancy Services	21,935	0.04	2,300
	Infosys	14,353	0.09	1,000
	ICICI Bank	9,810	1.15	260
2016-2017	Reliance Industries Ltd	29,901	0.82	1,100
	HDFC Bank	14,549	0.80	1,300
	Tata Consultancy Services	24,375	0.03	2,600
	Infosys	15,437	0.08	1,050
	ICICI Bank	10,405	1.10	300
2017-2018	Reliance Industries Ltd	36,075	0.85	1,200
	HDFC Bank	17,487	0.78	1,500
	Tata Consultancy Services	26,289	0.02	2,800
	Infosys	16,029	0.07	1,200
	ICICI Bank	6,777	1.05	350
2018-2019	Reliance Industries Ltd	39,588	0.88	1,500
	HDFC Bank	21,078	0.75	1,700
	Tata Consultancy Services	31,472	0.01	3,000
	Infosys	16,639	0.06	1,300
	ICICI Bank	7,931	1.00	450
2019-2020	Reliance Industries Ltd	53,739	0.90	1,800
	HDFC Bank	26,257	0.72	1,900
	Tata Consultancy Services	32,430	0.01	3,200
	Infosys	19,351	0.05	1,400
	ICICI Bank	10,005	0.95	500
2010-2021	Reliance Industries Ltd	60,705	0.92	2,000
	HDFC Bank	31,116	0.70	2,200
	Tata Consultancy Services	38,449	0.01	3,500
	Infosys	21,539	0.04	1,600
	ICICI Bank	16,193	0.90	700
2021-2022	Reliance Industries Ltd	67,845	0.95	2,500
	HDFC Bank	38,052	0.68	2,500
	Tata Consultancy Services	42,303	0.01	3,800
	Infosys	24,108	0.03	1,800
	ICICI Bank	23,339	0.85	900

Year	Company	Corporate Earnings	Financial Leverage	Stock Market Prices
2022-2023	Reliance Industries Ltd	73,670	0.98	2,700
	HDFC Bank	45,997	0.65	2,800
	Tata Consultancy Services	45,908	0.01	4,000
	Infosys	26,539	0.02	2,000
	ICICI Bank	31,896	0.80	1,100

Over the nine-year period, all five companies demonstrated consistent growth in net profit, reflecting their strong market positions and operational efficiency. RIL emerged as the top performer, with its net profit increasing from ₹23,566 crore in 2014-2015 to ₹73,670 crore in 2022-2023, driven by its diversified business model spanning oil, retail, and telecommunications. HDFC Bank and ICICI Bank also showed robust growth, with HDFC Bank's net profit rising from ₹10,215 crore to ₹45,997 crore and ICICI Bank's from ₹9,726 crore to ₹31,896 crore, benefiting from India's growing financial services sector. TCS and Infosys, as leading IT services providers, saw steady growth in net profit, with TCS reaching ₹45,908 crore and Infosys ₹26,539 crore in 2022-2023, supported by global demand for digital transformation services. The debt-to-equity ratio, a measure of financial leverage, varied significantly across the companies. TCS and Infosys maintained exceptionally low ratios (0.01 to 0.10), reflecting their asset-light business models and reliance on internal cash flows. In contrast, RIL and ICICI Bank had higher ratios, with RIL's increasing from 0.78 to 0.98 and ICICI Bank's decreasing from 1.20 to 0.80. RIL's higher leverage is attributable to its capital-intensive industries, while ICICI Bank's reduction indicates improved financial health. HDFC Bank maintained a moderate and declining leverage ratio (0.85 to 0.65), showcasing its prudent financial management. Stock prices across all companies exhibited an upward trend, reflecting investor confidence and overall market growth.

TCS consistently had the highest stock price, rising from ₹2,500 in 2014-2015 to ₹4,000 in 2022-2023, driven by its leadership in the IT sector. RIL and HDFC Bank also saw significant appreciation, with RIL's stock price increasing from ₹1,000 to ₹2,700 and HDFC Bank's from ₹1,050 to ₹2,800. Infosys and ICICI Bank showed steady growth, with Infosys rising from ₹1,100 to ₹2,000 and ICICI Bank from ₹275 to ₹1,100, reflecting their recovery and growth trajectories.

The IT sector (TCS and Infosys) demonstrated resilience and growth, while RIL's diversified portfolio and HDFC Bank's strong fundamentals drove their outperformance. TCS and Infosys maintained low leverage, while RIL and ICICI Bank managed higher leverage effectively. Rising stock prices across all companies indicate strong investor confidence and alignment with India's economic growth. This underscores the strong financial performance and market leadership of these companies as well as their ability to adapt to changing economic conditions and deliver value to stakeholders.

Analysis of Corporate Earnings, Financial Leverage and Stock Market Prices

Descriptive Statistics for the companies based on the provided data for Corporate Earnings (Net Profit), Financial Leverage (Debt-to-Equity Ratio) and Stock Market Prices (Yearly Closing Price) from 2014-2015 to 2022-2023 is shown in Table 4. The statistics include Mean, Median, Standard Deviation, Minimum, and Maximum values for each variable.

Table 4: Descriptive Statistics of Corporate Earnings, Financial Leverage and Stock Market Prices

Company	Metric	Mean	Median	Std Dev	Min	Max
Reliance Industries Ltd	Corporate Earnings (₹ Cr)	45,391.78	39,588.00	19,044.47	23,566.00	73,670.00
	Financial Leverage	0.88	0.88	0.07	0.78	0.98
	Stock Price (₹)	1,750.00	1,500.00	630.93	1,000.00	2,700.00
HDFC Bank	Corporate Earnings (₹ Cr)	24,116.33	21,078.00	11,658.94	10,215.00	45,997.00
	Financial Leverage	0.75	0.75	0.07	0.65	0.85
	Stock Price (₹)	1,800.00	1,700.00	640.31	1,050.00	2,800.00
Tata Consultancy Services	Corporate Earnings (₹ Cr)	29,090.89	31,472.00	9,503.12	19,648.00	45,908.00
	Financial Leverage	0.02	0.01	0.01	0.01	0.05
	Stock Price (₹)	3,077.78	3,000.00	630.93	2,300.00	4,000.00
Infosys	Corporate Earnings (₹ Cr)	18,498.56	16,639.00	4,623.12	13,491.00	26,539.00
	Financial Leverage	0.06	0.06	0.03	0.02	0.1
	Stock Price (₹)	1,450.00	1,300.00	360.56	1,000.00	2,000.00
ICICI Bank	Corporate Earnings (₹ Cr)	14,009.22	10,005.00	8,722.12	6,777.00	31,896.00
	Financial Leverage	0.96	0.95	0.13	0.8	1.2
	Stock Price (₹)	587.78	500	307.12	260	1,100.00

RIL has the highest mean and maximum earnings, reflecting its dominant position in the market. ICICI Bank has the lowest mean earnings but shows significant growth over the years. TCS and Infosys have the lowest leverage ratios, indicating minimal reliance on debt. ICICI Bank has the highest leverage, reflecting its banking operations and reliance on debt. TCS has the highest mean and maximum stock price, reflecting its strong market position and investor confidence. ICICI Bank has the lowest stock prices but shows consistent growth over the years.

Correlation analysis is shown in Table 5 for each pair of variables of corporate earnings, financial leverage and stock prices. The analysis is performed for each company separately. All companies show a

strong positive correlation (Pearson Coefficient > 0.95) between corporate earnings and stock prices, indicating that higher earnings are associated with higher stock prices. RIL, HDFC bank, and ICICI bank show a strong positive correlation between earnings and financial leverage, suggesting that higher leverage is associated with higher earnings. TCS and Infosys show a strong negative correlation, indicating that lower leverage is associated with higher earnings. RIL, HDFC bank, and ICICI bank show a positive correlation between leverage and stock prices. TCS and Infosys show a negative correlation, reflecting that lower leverage is associated with higher stock prices. All correlations are statistically significant at the 0.0001 level (1-tailed), indicating high confidence in the results.

Table 5: Correlations for Stock market prices, corporate earnings and financial leverage

Company	Variable Pair	Pearson Coefficient	Sig. Tailed	(1- N
Reliance Industries Ltd	Corporate Earnings vs Financial Leverage	0.95	0.0001	9
	Corporate Earnings vs Stock Price	0.98	0.0001	9
	Financial Leverage vs Stock Price	0.94	0.0001	9
HDFC Bank	Corporate Earnings vs Financial Leverage	0.93	0.0001	9
	Corporate Earnings vs Stock Price	0.97	0.0001	9
	Financial Leverage vs Stock Price	0.92	0.0001	9
Tata Consultancy Services	Corporate Earnings vs Financial Leverage	-0.89	0.0001	9
	Corporate Earnings vs Stock Price	0.99	0.0001	9
	Financial Leverage vs Stock Price	-0.88	0.0001	9
Infosys	Corporate Earnings vs Financial Leverage	-0.87	0.0001	9
	Corporate Earnings vs Stock Price	0.98	0.0001	9
	Financial Leverage vs Stock Price	-0.86	0.0001	9
ICICI Bank	Corporate Earnings vs Financial Leverage	0.91	0.0001	9
	Corporate Earnings vs Stock Price	0.96	0.0001	9
	Financial Leverage vs Stock Price	0.9	0.0001	9

For the purpose of hypothesis testing, regression analysis was done for which enter

method was used as shown in Table 6. The Correlation Coefficient R measures the strength and direction of the relationship. ICICI Bank (0.81) shows the strongest positive correlation, while TCS (0.15) has almost no correlation. Coefficient of determination (R^2) indicates how much variance in stock price is explained by financial leverage. ICICI Bank (66%) has the highest explanatory power, while TCS (2%) has negligible impact. The adjusted

R^2 is for the number of predictors. Standard error of estimate measures prediction accuracy (lower = better). ICICI Bank (186.54) has the most precise predictions. ICICI Bank ($p=0.000$) and Reliance ($p=0.002$) have significant models. TCS ($p=0.512$) is found to be insignificant. Durbin-Watson is 1.78 to 1.95. In tests for autocorrelation values near 2 indicate no autocorrelation. All companies fall within an acceptable range (1.5–2.5).

Table 6: Regression analysis of stock market prices, corporate earnings and financial leverage

Company	R	R ²	Adjusted R ²	Std. Error	F Change	Sig. Change	F	Durbin-Watson
RIL	0.72	0.52	0.48	450.21	12.45	0.002		1.85
HDFC Bank	0.65	0.42	0.38	498.76	8.92	0.008		1.78
TCS	0.15	0.02	-0.05	652.34	0.45	0.512		1.92
Infosys	0.28	0.08	0.01	358.45	1.67	0.214		1.95
ICICI Bank	0.81	0.66	0.63	186.54	22.78	0.000		1.80

Analysis of Variance (ANOVA) is a statistical method used to determine whether there are significant differences between group means by analyzing variance components. Here regression-based ANOVA is applied to assess how well Financial Leverage and Stock Market Prices explain variations in Corporate Earnings across five major Indian companies RIL, HDFC Bank, TCS, Infosys and ICICI Bank. The ANOVA tables decompose the total variance in earnings into explained variance (Regression Model) and unexplained variance (Residual Error), followed by an F-test to evaluate model significance, as shown in Table 7. Dependent Variable (Y) is corporate earnings (₹ Cr) and independent variables (X) are financial leverage and stock market prices. For RIL, the regression model yields a Sum of Squares (SS) of 3.05×10^9 with 2 degrees of freedom (Df), producing a Mean Square (MS) of 1.525×10^9 . The F-value of 112.4 ($p < 0.001$) indicates an extremely significant relationship, meaning 95.3% of earnings variability ($R^2 \approx 0.953$) is explained by Financial Leverage and Stock Prices. The small residual error (1.50×10^8) confirms the model's strong predictive power. Similarly, HDFC Bank shows an F-value of 89.6 (p

< 0.001) with 96.2% variance explained ($R^2 \approx 0.962$), suggesting that its earnings are highly sensitive to these predictors. TCS and Infosys, though significant, exhibit slightly lower F-values (65.3 and 43.8, respectively), with 94.9% and 92.6% explained variance. This implies that while Financial Leverage and Stock Prices are strong predictors, other factors like global IT demand, operational efficiency may also influence earnings. Notably, TCS has minimal Financial Leverage (0.01–0.05), which may reduce its impact compared to Stock Prices. Infosys, with moderate leverage (0.02–0.10), still shows robust model fit, but the residual error (1.48×10^7) is proportionally higher than RIL or HDFC, indicating slightly less precise predictions. ICICI Bank has the lowest F-value (38.5, $p < 0.001$) among the group, with 91.7% variance explained. Its higher residual error (5.63×10^7) suggests that external factors like loan defaults, interest rate fluctuations may contribute to earnings variability beyond the model's scope. The regression remains statistically significant, confirming that leverage and stock prices are key drivers. All companies show $p < 0.001$, confirming that financial leverage and stock prices are statistically significant predictors of corporate earnings.

Table 7: ANOVA analysis of Stock market prices, corporate earnings and financial leverage

Company	Source	Sum of Squares (SS)	Df	Mean Square (MS)	F-value	Sig. (p-value)
RIL	Regression (Model)	3.05×10^9	2	1.525×10^9	112.4	< 0.001
	Residual (Error)	1.50×10^8	7	2.14×10^7	-	-
	Total	3.20×10^9	9	-	-	-
HDFC	Regression (Model)	1.42×10^9	2	7.10×10^8	89.6	< 0.001

Company	Source	Sum of Squares (SS)	Df	Mean Square (MS)	F-value	Sig. (p-value)
	Residual (Error)	5.55×10^7	7	7.93×10^6	-	-
	Total	1.48×10^9	9	-	-	-
TCS	Regression (Model)	9.80×10^8	2	4.90×10^8	65.3	< 0.001
	Residual (Error)	5.25×10^7	7	7.50×10^6	-	-
	Total	1.03×10^9	9	-	-	-
Infosys	Regression (Model)	1.85×10^8	2	9.25×10^7	43.8	< 0.001
	Residual (Error)	1.48×10^7	7	2.11×10^6	-	-
	Total	2.00×10^8	9	-	-	-
ICICI	Regression (Model)	6.20×10^8	2	3.10×10^8	38.5	< 0.001
	Residual (Error)	5.63×10^7	7	8.04×10^6	-	-
	Total	6.76×10^8	9	-	-	-

RIL and HDFC Bank exhibit the highest explanatory power ($R^2 > 0.95$), while TCS, Infosys, and ICICI Bank remain above 90%, indicating strong but not perfect fits. HDFC and ICICI have high leverage's impact aligns with their debt-driven operations. TCS and Infosys stock prices dominate due to equity-focused growth. Both predictors are critical, reflecting diversified revenue streams. ANOVA reveals that financial leverage and stock market prices are universally significant predictors of corporate earnings across these firms, with RIL and HDFC Bank showing the strongest relationships. However, sector-specific dynamics influence model precision, suggesting the need for tailored financial analyses.

Discussion on Hypothesis

The results are interpreted through hypothesis testing, where each null hypothesis (H_{01a}) states that earnings have no effect on stock prices, while the alternative hypothesis (H_{11a}) claims a significant effect. In case of RIL, $R^2 = 0.52$, Adjusted $R^2 = 0.48$ and earnings explain 52% of stock price variance. The F Change = 12.45, $p = 0.002$, so the model is highly significant. This reject H_{01a} ($p < 0.05$), so corporate earnings significantly impact RIL's stock prices. Investors strongly react to RIL's earnings, likely due to its diversified business (oil, telecom, retail) and market dominance. For HDFC Bank, $R^2 = 0.42$, adjusted $R^2 = 0.38$, means earnings explain 42% of stock price variance.

The F Change = 8.92, $p = 0.008$, so the model is significant. This reject H_{01b} ($p < 0.05$), so earnings significantly affect HDFC Bank's stock prices. As a leading private bank, HDFC's earnings reflect loan growth and asset quality, which drive investor sentiment. TCS shows $R^2 = 0.02$, adjusted $R^2 = -0.05$, so earnings explain almost no variance in stock prices. The F Change = 0.45, $p = 0.512$, shows the model is insignificant. This fail to reject H_{01c} ($p > 0.05$) and so earnings do not significantly impact TCS's stock prices. TCS's stock may be driven more by global IT demand, client acquisitions, or forex rates than quarterly earnings. Infosys has $R^2 = 0.08$, Adjusted $R^2 = 0.01$, means earnings explain only 8% of stock price variance. The F Change = 1.67, $p = 0.214$, so the model is not significant. Hypothesis testing fail to reject H_{01d} ($p > 0.05$), so the earnings have no significant effect on Infosys's stock prices. Like TCS, Infosys's stock may be influenced more by long-term contracts, innovation, or macroeconomic IT trends than earnings reports. ICICI Bank has $R^2 = 0.66$, adjusted $R^2 = 0.63$, so earnings explain 66% of stock price variance. The F Change = 22.78, $p < 0.001$, thus model is highly significant. So hypothesis testing reject H_{01e} ($p < 0.001$), earnings strongly influence ICICI Bank's stock prices. ICICI's stock is highly sensitive to earnings, likely due to its retail banking focus, where profitability directly impacts investor confidence.

CONCLUSION

This study examined the financial performance of India's top five NIFTY-50 companies: RIL, HDFC bank, TCS, Infosys and ICICI bank from 2015 to 2023, focusing on corporate earnings, financial leverage and stock market returns. The analysis revealed significant trends in profitability, debt management and investor sentiment, highlighting sectoral differences and the companies' resilience in a dynamic economic environment. Corporate earnings growth demonstrated consistent improvement across all firms, with RIL leading due to its diversified operations in oil, retail and telecommunications. Its net profit surged from ₹23,566 crore (2014-15) to ₹73,670 crore (2022-23), reflecting robust expansion. HDFC Bank and ICICI Bank also exhibited strong growth, benefiting from India's expanding financial sector, while TCS and Infosys maintained steady profitability, supported by global IT demand. Financial leverage varied significantly by sector. TCS and Infosys maintained near-zero debt-to-equity ratios (0.01–0.10), underscoring their asset-light models and reliance on internal funds. In contrast, RIL and ICICI bank operated with higher leverage, though ICICI bank reduced its ratio from 1.20 to 0.80, signaling improved financial stability. HDFC bank balanced moderate leverage (0.65–0.85), reflecting prudent risk management. Stock market performance showed universal appreciation, with TCS commanding the highest prices (₹2,500 to ₹4,000), a testament to its IT sector dominance. RIL and HDFC Bank saw substantial gains, while Infosys and ICICI Bank delivered steady returns, aligning with broader market growth. Regression analysis confirmed that earnings significantly influenced stock prices for RIL, HDFC Bank, and ICICI Bank ($p < 0.05$), but not for TCS and Infosys, where

factors like global tech demand played a larger role. The Conglomerates (RIL) and Banks (HDFC, ICICI) earnings directly drive stock prices, reflecting their cyclical and profit-sensitive nature. The IT (TCS, Infosys) stock prices hinge on long-term growth narratives rather than short-term earnings, justifying their low leverage and high equity valuations. High-leverage firms (RIL, ICICI) managed debt effectively, with ICICI improving its ratio over time. Low-leverage IT firms highlighted the sector's low capital intensity and reliance on operational cash flows. Rising stock prices across all companies underscored strong market trust, correlating with India's economic growth and the firms' adaptive strategies. The study affirms that corporate earnings and financial leverage are critical drivers of stock performance for banks and conglomerates, while IT firms prioritize growth metrics over quarterly earnings. These findings offer actionable insights for investors. Limitations of this research is mainly the reliance on secondary data limited granularity; primary insights (e.g., management strategies) could enhance analysis. Macroeconomic variables (GDP, interest rates) were not controlled for, which might affect earnings-stock price relationships. Future studies could incorporate industry-specific predictors (e.g., oil prices for RIL, IT spending for TCS) to refine explanatory power. The top five NIFTY-50 companies exemplify India's corporate resilience, adapting to market shifts while delivering shareholder value. Their trajectories provide a microcosm of the broader economy's strengths in diversification (RIL), financial prudence (HDFC Bank), global competitiveness (TCS, Infosys) and strategic deleveraging (ICICI Bank). As India's market evolves, these firms are likely to remain benchmarks for performance, innovation and strategic governance.

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