

# RELEVANCE OF EARNINGS AND BOOK VALUE: EVIDENCE FROM LISTED PHARMACEUTICAL COMPANIES

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## Abstract

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For accounting information to be useful for decision making it is essential that it is relevant for decision-making and should have a significant relation with stock prices or stock returns. Value relevance research aims to explain the impact of accounting information on stock prices or stock returns. This study examines the value relevance of earnings and book values on listed Indian pharmaceutical companies' stock prices by using the Ohlson price model. The study gathered a series of panel data from 2006 to 2015 from the Nifty Pharma index. Ordinary least square and panel regression estimation were done using EViews. The findings provide sufficient evidence of those earnings per share (EPS) and book value per share (BVPS) jointly and individually for the Nifty Pharma index sample played an essential role in influencing stock prices. However, there is an insignificant decline in the combined value relevance of EPS and BVPS. The findings reveal that the EPS and BVPS played an important role in influencing stock prices. However, explanatory powers of EPS and BVPS in all years are significantly lower than that of developed countries. Overall findings show mixed results on the considerable influence of firm size on the value relevance of accounting information. This study's findings have implications for analysts, investors, and other market participants; they should use EPS and BVPS in the equity valuation of pharmaceutical companies for better allocation of resources in capital markets.

**Keywords:** Stock Market, Ohlson Model, Nifty, Stock Prices, Firm Size, Accounting Information

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## 1. INTRODUCTION

Value relevance research is part of financial accounting research investigated under capital market-based accounting research (CMBAR), which aims to explain the impact of accounting information on stock prices or stock returns. Empirically, measured if there is a statistical association between accounting information and market measures such as stock prices or stock

returns (Francis & Schipper, 1999). From the investor's perspective, accounting information is deemed relevant if it is found to have a significant relation with stock prices or stock returns (Barth, Beaver, & Landsman, 2001). This line of CMBAR acquired much attention from many researchers, and the considerable attention resulted from the notion raised in the early 90s that accounting information became less relevant for investors (Azeem & Kouser, 2011).