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Value relevance of reported earnings and book value: Evidence from Indian stock market

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Abstract
The study examines the value relevance of accounting information in the Indian stock market, focusing on the impact of earnings per share (EPS) and book value per share (BVPS) on stock prices. The study has applied a modified version of the Ohlson (1995) [33] valuation model to examine the impact of earnings per share (EPS) and book value per share (BVPS) on stock prices. The results of the study revealed that BVPS has a statistically significant positive impact on stock prices, suggesting that investors give due weightage to it when making investment decisions. However, EPS has been found to have no discernible impact on stock prices, suggesting that investors consider book value to be a more reliable indicator of firm value than EPS.

Keyword: Value relevance, earning per share, book value per share, stock prices

Introduction

The capacity of accounting data to predict and explain stock values is one of the primary concerns of financial market analysts, investors, and regulators. "Value Relevance" refers to the degree to which firm value is linked to financial statement elements such as book value per share (BVPS) and earnings per share (EPS). Relevance is one of the four principle qualitative characteristics that financial information should possess to be useful for decision making (IASB, 2001). The International Accounting Standard Board (IASB, 2001) defined the word “relevance” as the principal qualitative characteristic that financial statements should have in order to be useful in decision-making. The primary purpose of the financial statements is to provide information about a company’s earnings performance to enable investors to take viable investment decisions. The other important use of the accounting information is to enable the decision makers to have a better understanding of its current and anticipated future earnings performance. Therefore, the relevance of accounting information can be described as an essential prerequisite for stock market growth (Oyerinde, 2011) [36].

As stock valuation becomes more data-driven, the empirical examination of value relevance of accounting information has become an important part of accounting and finance research. The adoption of International Financial Reporting Standards, pathbreaking financial reforms, and heightened investor participation have all contributed to significant changes in the Indian stock market over the last few decades. Within this evolving landscape, it is crucial to comprehend how traditional accounting indicators influence market valuation in this changing environment. There has been a debate for a long time about the factors that are most important in determining the stock prices. Several factors are presumed to have an impact on the stock prices, but the most important factor that determines the direction of stock prices is the financial performance of a company. The financial statements contain a lot of information, which, if properly analysed and interpreted, can provide valuable insights about the financial performance of a company. These statements provide investors with valuable information about sales growth, profit growth, EBITDA margins, EPS, P/E multiples etc. This study seeks to empirically examine the value relevance of Earnings Per Share (EPS) and Book Value Per Share (BVPS) in the determination of stock returns in the Indian Stock Market.

Though a lot of research has been conducted on the value relevance of accounting information in determining the stock prices worldwide, there are few aspects which need

further exploration. The significant gaps in the existing research that still exist, particularly in the Indian context, include:

The relative strength of EPS versus BVPS in determining firm value has not been fully resolved, especially in the Indian context, where earnings manipulation is still a concern.

Most Indian studies are either out-of-date or predate the post-IFRS period, leaving open the question of how earnings and book value function under the new reporting regime.

To fill these gaps, the present study uses a robust panel dataset of companies listed on the Nifty 100 index from 2016 to 2025, covering the post-IFRS transition period to analyse the value relevance of EPS and BVPS. This study adds to the value relevance literature in both methodological and contextual ways by using a modified version of Ohlson's (1995) [33] valuation model. The study further stands out for thoroughly testing the autocorrelation, heteroskedasticity, and multicollinearity problems that were frequently disregarded in earlier Indian studies.

The results not only make clear the relative importance of BVPS and EPS, but they also let investors, regulators, and financial statement preparers know which accounting measures the market finds more reliable. Accordingly, the following research questions and corresponding objectives are formulated:

- To what extent does the earnings per share (EPS) reported in the financial statements of listed companies influence share prices in the Indian stock market?
- To what extent does the book value per share (BVPS) reported in the financial statements of listed companies influence share prices in the Indian stock market?

Research Objectives

The study is mainly aimed:

- To assess the impact of earnings per share (EPS) on the share prices of listed companies in the Indian stock market.
- To assess the influence of book value per share (BVPS) on the share prices of listed companies in the Indian stock market

Literature Review

Stock market investors are confronted with the most difficult task of identifying the potential stocks for investment. In the process of identifying the potential stocks for investment, both the micro and macroeconomic factors are taken into account. The micro information mainly includes the information about the industry and specific companies. The most important information considered while taking investment decisions in the stock market is the financial information of a company. The stock price movements are largely determined by the financial performance of the company. There are no two opinions about the relevance of financial information in determining the stock prices. But what kind of financial information determines stock prices? This is the question that has remained a point of debate. Seeking an answer to this potent question has remained the focal point of the research conducted in the area of research on stock markets. Assessing the value relevance of accounting information in determining stock prices, a lot of research has been conducted worldwide. The brief review of important studies on the subject was done so as to have a better perspective of the value relevance of accounting information in the determination of stock prices. The path breaking studies in this field include Beaver (1968) [10], Ball and Brown (1968) [5], Amir *et al*. (1993) [44], Ohlson (1995) [33], Francis & Schipper (1999) [23] etc.

Beaver (1968) [10] and Ball and Brown (1968) [5] provided the foundation for value relevance research by proving that accounting earnings could predict market behaviours. The study by Amir *et al*. (1993) [44] is considered the first study to use the term “Value Relevance”. It defined it as the relationship between accounting figures and the market value of equity. Most studies on value relevance have thoroughly documented the relationship between accounting information and stock prices or stock returns (Francis & Schipper, 1999; Lev & Zarowin, 1999; Khanaga, 2011) [27, 45].

Since Ball and Brown (1968) [5] and Beaver (1968) [10], many researchers have highlighted the value relevance of EPS and BVPS on market measures such as stock price and stock returns. Profitability ratios are the most popular and frequently used accounting information variables (Bhatia & Dhamija, 2015) [13]. EPS was found to be significant in varied stock markets across the globe; Egyptian stock exchange (Ragab & Omran, 2006) [38]; Dhaka Stock Exchange (Miah, 2025) [29]; Nigerian Stock Exchange (Olugbenga & Oyerinde, 2014) [34]; Istanbul Stock Exchange (Kargin); Indonesia Stock Exchange (Andriantomo & Yudianti); Shanghai stock exchange; Sri-Lanka. In Indian stock market as well, the EPS was found to be a significant accounting variable by (Sharma, 2014) [40]; Sukhija (2014) [46]; Malhotra & Tandon (2013) [47]; Khanna (2014) [28].

The impact of book value per share on stock price was examined by Malhotra and Tandon (2013) [47]; Tharmila and Nimalathan; Olugbenga and Oyerinde (2014) [34]; Ragab and Omran (2006) [38]; Miah (2025) [29]; and Sharma (2011). Based on their findings, book value was found to have a positive and significant relation with market price. These findings were consistent with Collin, Maydew, and Weiss (1997) [19]; Barth *et al* (2001) [8]; Francis and Schipper (1999) [23].

Over the years, numerous empirical studies have been conducted in both developed and emerging economies. For example, Collins, Maydew, and Weiss (1997) [19] discovered that, although the relative relevance may differ based on business characteristics, both earnings and book value have a strong positive impact on firm value. Lev and Zarowin (1999) [45], on the other hand, noted that rising intangibles and market volatility have reduced the significance of earnings in dynamic marketplaces. Francis and Schipper (1999) [23] also emphasized how important it is to look at book value and earnings at the same time in order to capture their combined explanatory influence. According to research conducted in emerging markets, such as Bao and Chow (1999) [7] and Elshandidy (2014) [22], book value is typically more significant than earnings in less developed and transparent markets.

In the Indian stock market as well, the EPS was found to be a significant accounting variable by (Sharma, 2014; Sukhija, 2014) [40, 46]; Malhotra & Tandon (2013) [47]; and Khanna

(2014) [28]. According to early research, book value is typically more valuable to Indian firms than earnings, particularly in capital-intensive industries (Ghosh and Mondal, 2009) [24]. These results support the idea that balance sheet indicators, which are thought to be less manipulable than income statement numbers, may be trusted more by Indian investors. Although BVPS and EPS are both strongly correlated with share prices, Khanna (2014) [28] and Mulenga (2015) [31] discovered that the importance of earnings tends to decline in companies with inconsistent disclosures or volatile performance. Bhatia and Dhamija (2015) [13] noted that inconsistent voluntary disclosure impairs the decision-usefulness of financial ratios, particularly earnings-based indicators.

The value relevance of financial statements has also been questioned in the post-IFRS context due to legal and accounting reforms, such as the adoption of Indian Accounting Standards (Ind AS), which are in line with IFRS. However, there is still a dearth of study on this transition. More recent studies provide nuanced insights across developed and emerging markets. C Chen, Chen, and Su (2001) [18] found that in the Chinese market, characterized by weaker accounting enforcement, book value was more value relevant than earnings. Similar results were reported by Alfaraih and Alanezi (2011) [1] for Kuwait, where investors' concerns about the quality of earnings caused them to rely more on balance sheet indicators. Ghanaian data, however, showed that although both metrics are value-relevant, earnings were able to account for a larger portion of the volatility in stock prices than book value (Osei &Afedzie, 2017) [35]. In Egypt, both variables were significant individually; however, earnings provided incremental explanatory power beyond book values (Ebaid, 2016) [21].

Emerging dynamics are also highlighted by recent findings from India. In contrast, research in other developing countries, like Qatar, showed a more significant drop in the relevance of earnings in relation to book value, indicating that book values continued to have a somewhat higher explanatory significance (Al-Shammari, 2018) [3]. According to these findings, the relative importance of earnings and book value varies depending on institutional quality, regulatory frameworks, and investor opinions regarding the accuracy of financial reporting, accounting discretion, and how well it reflects the values of the company. The necessity for market-specific empirical research is thus highlighted by the fact that the balance between the two variables differs by nation, industry, and reporting regime.

Based on the insights drawn from reviewed literature, the following hypothesis are formulated:

- **H_1:** Earnings per share (EPS) has a significant positive impact on the share price of listed companies in the Indian stock market.
- **H_2:** Book value per share (BVPS) has a significant positive impact on the share price of listed companies in the Indian stock market.

Methodology

The study is based on the modified version of Ohlson's valuation model (1995) [33]. Ohlson (1995) [33] presents a linear valuation model in which the market value of equity is expressed as a function of current book value, earnings, and the present value of expected abnormal earnings. The model provides a theoretical foundation for examining the value relevance of accounting numbers. In the original Ohlson model, both stock price and accounting figures have been taken at the end of the financial year. But in most of the empirical studies, stock price has been taken at the end of three, four or six months from the last date of financial year based on their disclosure regulations (Sarifudeen, A. L., 2016; Bao, B. H., & Chow L, 1999) [39, 7]. In India, the listed companies are required to submit their last quarter and annual financial results within 60 days to the stock exchange from the end of the financial year (Regulation 33 of SEBI). So, we have taken stock prices of sample stocks at the end of the 2nd month of the financial year, keeping in view the fact that financial statements would be available to the public after two months.

Sample Selection

The sample for the study consists of all companies listed in the Nifty 100 index since it offers a fair mix of industries and companies with a wide range of sizable and liquid listed companies in the Indian stock market. However, the final sample consisted of 97 companies due to data unavailability and inconsistencies in the financial statements of three firms.

Variables and Data Collection

Annual reports and CMIE databases were the sources of the data. The following variables were used in this study:

Dependent variable

Stock Price

The dependent variable of the present study is stock price. The closing share price two months after the end of the financial year has been taken.

Independent variables

1. Earnings Per Share (EPS): Earnings Per Share (EPS) represents the portion of a company's net income allocated to each outstanding equity share. In this study, EPS is used as an indicator of a firm's profitability and is measured as:

$$\text{EPS} = \frac{(Net\ Profit\ After\ Tax)}{Number\ of\ Outstanding\ Equity\ Shares}$$

2. Book Value Per Share (BVPS)

Book Value Per Share (BVPS) reflects the value of an equity of a company on a per-share basis. It indicates the residual claim of shareholders after all outside liabilities are deducted from total assets. For this study, BVPS is measured as:

$$\text{BVPS} = \frac{(Total\ equity\ attributable\ to\ shareholders)}{Number\ of\ Outstanding\ Equity\ Shares}$$

Econometric Models Used

To assess the relationship between EPS, BVPS, and stock price, the Pooled Ordinary Least Square (OLS) model has been used by employing the following equation:

$$MVPS_{iT} = \alpha + \beta_1 EPS_{it} + \beta_2 BVPS_{it} + \varepsilon_{it}$$

Where

$MVPS_{iT}$ is the stock price two months after the end of financial year

EPS_{it} reflects earnings per share of firm at the end of financial year

$BVPS_{it}$ indicates the book value per share of the firm at the end of financial year

ε_{it} the error term.

α represents intercept.

Besides, the following estimation techniques were employed:

1. Pooled OLS - baseline estimation.
2. Fixed Effects (FE) Model - to control for unobserved time-invariant firm characteristics.
3. Random Effects (RE) Model - as an alternative specification assuming uncorrelated firm effects.
4. Robust Standard Errors - to address potential heteroskedasticity.
5. Two-Way Fixed Effects (Firm and Year) - to control for both firm-specific and time-specific effects simultaneously.

The choice between FE and RE was determined using the Hausman (1978) [48] specification test.

Software Used

All regression models and diagnostics were implemented using Stata 17, which offers robust support for panel data analysis, clustering, and heteroskedasticity-consistent standard errors.

Results and Discussion

Descriptive Statistics

The descriptive statistics presented in Table 1 provide a comprehensive overview of the fundamental characteristics of the variables under investigation in this study. The dataset comprises companies listed on the National Stock Exchange of India, offering valuable insights into accounting metrics and market valuations across different sectors and time periods.

Table 1: Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
EPS	865	59.78	107.229	-160.089	969.499
Book Value Per Share	923	346.203	621.223	-163.638	5722.135
Stock Price	925	1606.737	3431.471	6	31415

The statistical analysis reveals substantial variation across all variables, reflecting the diverse nature of the Indian corporate landscape. Earnings Per Share (EPS) demonstrates significant dispersion, ranging from -₹160.089 to ₹969.499 with a standard deviation of ₹107.229. This wide distribution indicates the inclusion of both loss-making enterprises and highly profitable firms in the sample, effectively capturing the full spectrum of corporate performance in the Indian market.

Book Value Per Share (BVPS) exhibits even more pronounced variability, with values spanning from -₹163.638 to ₹5,722.135 and a standard deviation of ₹621.223. The presence of negative book values suggests that some firms have accumulated deficits exceeding their capital base, while the maximum value indicates companies with substantial asset foundations. Stock prices range from ₹6 to ₹31,415 with a mean of ₹1,606.737, confirming the heterogeneous valuation landscape that is characteristic of emerging markets like India.

Correlation Analysis

The Pearson correlation matrix presented in Table 2 offers preliminary insights into the bivariate relationships between the research variables, establishing foundational understanding before proceeding to multivariate regression analysis.

Table 2: Pearson Correlation Matrix

Variables	(1)	(2)	(3)
(1) EPS	1.000		
(2) BVPS	0.805	1.000	
(3) Stock Price	0.683	0.862	1.000

The correlation analysis reveals economically significant relationships that merit further investigation. Both accounting metrics demonstrate strong positive correlations with stock prices, though with varying intensities. Book Value Per Share exhibits a remarkably strong association with stock price (r = 0.862), suggesting that balance sheet information plays a crucial role in market valuation and may be a primary driver of investor decisions. Earnings Per Share shows a moderate correlation with stock price (r = 0.683), indicating its relevance while being comparatively weaker than book value, potentially pointing to lower investor confidence in earnings information.

The high correlation between EPS and BVPS (r = 0.805) reflects the fundamental accounting relationship where profitable operations typically increase retained earnings, thereby augmenting book value over time. However, this interrelationship between independent variables warranted rigorous investigation for potential multicollinearity in subsequent regression analyses to ensure the robustness of findings.

Diagnostic Tests

Multicollinearity Test

The Variance Inflation Factor (VIF) test was conducted to assess potential multicollinearity concerns arising from the high correlation observed between EPS and BVPS. The results presented in Table 3 provide crucial insights into this potential issue. The VIF analysis reveals identical values of 2.838 for both independent variables, well below the conservative threshold of 5 and the more lenient threshold of 10 commonly cited in econometric literature. This confirms that multicollinearity does not pose a severe threat to model reliability, and both variables can be legitimately

included in the regression models without concerns about inflated standard errors or coefficient bias.

Table 3: Variance Inflation Factor

Variable	VIF	1/VIF
BVPS	2.838	0.352
EPS	2.838	0.352
Mean VIF	2.838	

Heteroskedasticity Test

The Breusch-Pagan test for heteroskedasticity yielded a chi-square statistic of 1367.91 (p<0.001), providing overwhelming evidence against the null hypothesis of homoskedasticity. This indicates that the error variance is not constant across observations but rather systematically varies with one or more independent variables. The presence of heteroskedasticity, while not affecting the unbiasedness of coefficient estimates, violates the assumption of spherical errors and renders conventional standard errors inefficient and potentially misleading. This could result in inflated t-statistics and incorrect inferences regarding statistical significance. To address this critical issue, all subsequent regression analyses employ heteroskedasticity-robust standard errors, which provide consistent inference regardless of error variance structure.

Autocorrelation Test

The Wooldridge test for first-order autocorrelation in panel data produced an F-statistic of 1.692 (p = 0.1967), failing to reject the null hypothesis of no serial correlation. This indicates that the error terms are independently distributed across time periods, with no systematic pattern of correlation between consecutive observations for the same firm. The absence of significant autocorrelation validates an important assumption of panel data models and suggests that the specified models adequately capture the temporal dynamics of the relationship between accounting information and stock prices. This finding enhances confidence in the efficiency of coefficient estimates and the validity of standard errors.

Model Specification Test

The Hausman specification test yielded a chi-square statistic of 110.774 (p=0.000), decisively rejecting the null hypothesis that the random effects model is appropriate. This strong result indicates that firm-specific unobserved characteristics (such as management quality, corporate culture, or industry positioning) are correlated with the independent variables, creating endogeneity concerns.

The rejection of the random effects specification in favor of fixed effects implies that omitting time-invariant firm characteristics would result in biased and inconsistent coefficient estimates. Consequently, the fixed effects model, which controls for all time-invariant firm-specific factors through within transformation, provides the appropriate framework for obtaining unbiased estimates of the value relevance parameters.

Regression Analysis

The regression results across six distinct model specifications, presented in Table 4, provide a robust and multifaceted examination of the value relevance of accounting information in the Indian stock market. This multi-model approach ensures the reliability of findings and helps identify the most appropriate model specification.

The most striking finding across all regression specifications is the consistent, positive, and highly statistically significant relationship between Book Value Per Share and stock prices. In the Simple OLS model (Column 1), the coefficient of 4.993 (t = 31.58, p<0.01) indicates that a one-unit increase in BVPS is associated with nearly a five-unit increase in stock price, holding EPS constant. This economically substantial relationship underscores the paramount importance investors place on balance sheet information in the Indian market context. The transition to the Fixed Effects model (Column 2) reveals a moderated but still highly significant coefficient of 2.491 (t = 12.27, p<0.01). This reduction in magnitude, coupled with the substantial decrease in R-squared from 0.753 to 0.218, suggests that approximately 50% of the cross-sectional relationship captured in the Pooled OLS specification stems from time-invariant firm characteristics rather than within-firm variation over time. Nevertheless, the persistent significance confirms that even when examining how changes in a firm's book value affect its stock price over time (after controlling for all time-invariant firm attributes), BVPS maintains strong explanatory power

Table 4: Regression Analysis Results (Dependent Variable: Stock Price)

Variables / Model	Simple OLS	Fixed Effect Model	Simple OLS (Robust SE)	Random Effects Model	FE Model (Robust SE)	Two-Way FE
BVPS	4.993***	2.491***	4.993***	3.503***	2.491***	2.036***
	(0.158)	(0.203)	(0.516)	(0.482)	(0.495)	(0.515)
EPS	-1.378	-0.0449	-1.378	-0.267	-0.0449	-0.476
	(0.939)	(0.813)	(3.616)	(3.021)	(2.649)	(2.048)
Constant	-90.88	741.0***	-90.88	399.09*	741.0***	364.2
	(69.56)	(73.84)	(162.8)	(208.674)	(278.1)	(242.7)
Observations	865	865	865	865	865	865
R-Squared	0.753	0.218	0.753		0.218	0.384
Firm FE	NO	YES	NO	NO	YES	YES
Year FE	NO	NO	NO	NO	NO	YES

***p<0.01, **p<0.05, *p<0.10. Standard errors in parentheses.

The robustness of this relationship is further confirmed through various model adaptations. The Simple OLS with Robust Standard Errors (Column 3) yields identical coefficient estimates but with appropriately inflated

standard errors to account for heteroskedasticity. The Random Effects model (Column 4) produces a coefficient of 3.503, intermediate between Pooled OLS and Fixed Effects, as expected given its blending of within and between variation. The Fixed Effects model with Robust Standard Errors (Column 5) maintains the identical coefficient to the standard FE specification while addressing heteroskedasticity concerns.

Most importantly, the Two-Way Fixed Effects model (Column 6), which controls for both firm-specific and time-varying unobserved factors, continues to demonstrate a strong positive relationship ($\beta = 2.036$, $t = 3.95$, $p<0.01$). The increased R-squared of 0.384 in this specification indicates that incorporating time effects substantially improves model fit, suggesting that macroeconomic factors and market-wide trends significantly influence stock prices alongside firm-specific accounting information. In stark contrast to the robust performance of BVPS, Earnings Per Share demonstrates consistent statistical insignificance across all model specifications. The EPS coefficients are not only statistically indistinguishable from zero but also exhibit unstable signs and magnitudes, occasionally turning negative despite the positive bivariate correlation with stock prices.

In the Simple OLS model (Column 1), the coefficient of -1.378 ($t = -1.47$, $p>0.10$) suggests a perverse, though insignificant, relationship between EPS and stock prices after controlling for book value. The Fixed Effects model (Column 2) yields a coefficient virtually indistinguishable from zero ($\beta = -0.0449$, $t = -0.06$, $p>0.10$), indicating no meaningful within-firm relationship between earnings changes and stock price movements.

This pattern of insignificance persists across all specifications, including the most rigorous Two-Way Fixed Effects model with robust standard errors (Column 6: $\beta = -0.476$, $t = -0.23$, $p>0.10$). The complete lack of statistical significance, combined with the instability of coefficient signs, strongly suggests that EPS provides no incremental explanatory power for stock prices beyond the information already captured by book value in the Indian market context.

Model Fit and Comparative Analysis

The model fit statistics provide additional insights into the relative explanatory power of different specifications. The remarkably high R-squared of 0.753 in the Pooled OLS model indicates that BVPS and EPS collectively explain approximately 75% of the cross-sectional variation in stock prices, underscoring the substantial information content of accounting measures in the Indian equity market.

The substantial decline in R-squared to 0.218 in the Fixed Effects model is methodologically expected, as this specification eliminates all between-firm variation and focuses exclusively on within-firm changes over time. The fact that accounting variables still explain nearly 22% of the temporal variation in firm-specific stock prices, even after controlling for all time-invariant characteristics, represents economically meaningful explanatory power.

The further improvement in R-squared to 0.384 in the Two-Way Fixed Effects model demonstrates the importance of accounting for temporal effects, suggesting that macroeconomic conditions, regulatory changes, and market-wide sentiment shifts significantly influence stock price movements alongside firm-specific accounting fundamentals.

Discussion of Findings

The empirical results present a compelling and consistent narrative regarding the differential value relevance of accounting information in the Indian stock market. The robust significance of Book Value Per Share across all model specifications, coupled with the pervasive insignificance of Earnings Per Share, demands thorough theoretical interpretation and contextual analysis. The findings can be elegantly interpreted through the lens of the Ohlson (1995) [33] valuation model, which conceptualizes firm value as a function of book value and the present value of expected future abnormal earnings. The persistent significance of BVPS in our results aligns perfectly with the model's theoretical prediction that book value serves as the fundamental anchor for equity valuation. The complete insignificance of EPS, however, presents a more nuanced implication. Within the Ohlson framework, current earnings should provide incremental information beyond book value to the extent that they signal future abnormal earnings potential. The absence of such incremental explanatory power in our results suggests that Indian market participants may perceive current earnings as poor predictors of future abnormal earnings. This could occur if reported earnings largely reflect normal returns on existing assets rather than sustainable economic profits, or if earnings are sufficiently noisy or manipulable that investors discount their informational value. This interpretation finds strong support in the work of Francis and Schipper (1999) [23], who documented declining value relevance of earnings in developed markets, and Lev and Zarowin (1999) [45], who attributed diminishing earnings informativeness to increasing business complexity and changing economic conditions. Our results extend this literature by demonstrating that in emerging markets like India, the decline in earnings relevance may be so pronounced that earnings lose all incremental explanatory power beyond book value. The differential value relevance of BVPS and EPS can be further understood through the prism of reliability and verifiability characteristics inherent in these accounting measures. Book value, grounded primarily in historical cost accounting, offers a relatively objective and verifiable measure of a firm's net asset position. While historical cost may lack timeliness, it provides a robust foundation less susceptible to managerial estimation and manipulation.

In contrast, earnings measurement inherently involves numerous accruals, estimates, and judgments regarding revenue recognition, expense matching, asset impairments, and liability measurements. This subjectivity creates greater vulnerability to earnings management, aggressive accounting practices, and reporting biases. In institutional environments with evolving governance standards and enforcement mechanisms, such as India's emerging market context, investors may rationally discount the credibility of earnings information, preferring the relative safety of balance sheet measures.

The unique institutional characteristics of the Indian capital market provide crucial context for interpreting these

findings. India's status as a rapidly growing emerging economy, coupled with its distinctive legal heritage, accounting traditions, and corporate governance practices, creates a valuation environment that may differ substantially from developed markets.

The Indian market includes a significant proportion of family-controlled businesses, business groups, and state-owned enterprises, each with distinctive governance challenges and reporting incentives. The prevalence of promoter-dominated ownership structures may create particular tensions between controlling and minority shareholders, potentially affecting the credibility of earnings reports. In such environments, investors may gravitate toward balance sheet measures as more resistant to insider manipulation. Furthermore, India's relatively recent transition to Ind AS (Indian Accounting Standards), substantially converged with IFRS, represents a significant regulatory change that may have temporarily affected the interpretability and comparability of earnings information. During periods of accounting transition, investors may understandably place greater weight on more stable balance sheet measures while developing familiarity with new earnings measurement rules. The composition of the Indian market, with substantial representation from banking, manufacturing, and infrastructure sectors—typically characterized by significant tangible assets—may naturally emphasize the importance of book value in valuation. Additionally, the presence of numerous loss-making technology and startup companies in the sample may contribute to the reduced relevance of earnings measures.

The remarkable consistency of our results across six distinct model specifications, including both Pooled OLS and various panel data formulations, substantially enhances confidence in their robustness and generalizability. The fact that BVPS remains highly significant while EPS remains completely insignificant regardless of estimation technique, error structure assumption, or unobserved effects specification suggests that these findings represent fundamental characteristics of the Indian valuation environment rather than methodological artifacts.

Conclusion

This study provides compelling evidence regarding the differential value relevance of accounting information in the Indian stock market. Through comprehensive analysis employing multiple panel data regression specifications, we demonstrate that Book Value Per Share serves as a highly significant and robust determinant of stock prices, while Earnings Per Share provides no incremental explanatory power beyond book value.

The findings suggest that Indian investors view the balance sheet as a more reliable indicator of firm value than the income statement, likely due to concerns about earnings quality, volatility, and potential manipulation in an emerging market context. The results underscore the importance of contextual factors in financial statement analysis and challenge the universal applicability of earnings-based valuation models.

For researchers, the study highlights the need to consider institutional and market-specific factors when examining value relevance. For practitioners, it suggests a re-evaluation of valuation approaches for Indian equities, with greater emphasis on balance sheet measures. For regulators, the findings highlight ongoing challenges in financial reporting quality that warrant continued attention and reform.

Future research could extend this analysis by examining value relevance across different sectors, investigating the impact of corporate governance and audit quality on earnings relevance, or tracking the evolution of value relevance metrics through India's continuing accounting standards convergence with IFRS.

Implications

Theoretical Implications

The findings challenge the universal applicability of earnings-centric valuation models that dominate mainstream finance theory and pedagogy. The complete lack of incremental explanatory power for EPS beyond BVPS suggests that in certain institutional contexts, balance sheet information may subsume the informational content of earnings measures entirely. This supports theoretical perspectives emphasizing the conditional nature of accounting information relevance, such as the model proposed by Bushman and Piotroski (2006) [49], which predicts systematic variation in accounting conservatism and value relevance across different institutional regimes. Our results provide strong empirical support for such contingency-based theoretical frameworks.

Furthermore, the findings underscore the continued relevance of book value-based valuation approaches, such as the Residual Income Model, in emerging market contexts. The robust performance of BVPS across all specifications suggests that theoretical models incorporating balance sheet information may offer superior explanatory power in institutional environments characterized by information asymmetry and governance challenges.

Practical Implications for Investors and Analysts

For market participants, our results suggest the need for substantial recalibration of valuation approaches when analyzing Indian equities. The traditional emphasis on earnings multiples (P/E ratios) and earnings-based valuation models appears questionable given the complete lack of incremental explanatory power demonstrated by EPS. Instead, investors and analysts should consider reallocating analytical attention toward balance sheet measures and valuation metrics anchored in book value, such as Price-to-Book (P/B) ratios. The development and application of valuation models that explicitly incorporate book value information, such as residual income models or economic value-added approaches, may yield more accurate equity assessments in the Indian context. The findings also suggest that fundamental analysis in emerging markets should place greater emphasis on assessing asset quality, capital structure, and balance sheet strength relative to earnings performance. Analytical techniques focusing on sustainable earning power, free cash flow generation, and asset utilization may provide more reliable investment signals than earnings-based measures alone.

Regulatory and Standard-Setting Implications

For regulators and standard-setters, including the Securities and Exchange Board of India (SEBI) and the Institute of Chartered Accountants of India (ICAI), the complete

insignificance of EPS raises important questions about financial reporting quality and effectiveness. The findings suggest that current earnings reporting practices may not adequately serve investor needs for decision-relevant information. This implies a need for intensified regulatory focus on earnings quality, transparency, and comparability. Potential initiatives could include enhanced disclosure requirements regarding revenue recognition practices, expense classification, unusual items, and non-GAAP performance measures. Strengthened enforcement mechanisms, auditor oversight, and corporate governance standards may also help improve the credibility and decision-usefulness of earnings information. The results further suggest that standard-setters should consider the practical implementation and interpretative challenges associated with complex accounting standards, particularly during transition periods. Ensuring that financial reporting reforms genuinely enhance, rather than diminish, the decision-usefulness of accounting information should be a paramount consideration.

Implications for Future Research

This study opens several promising avenues for future research. First, the differential value relevance of accounting information across various sectors of the Indian economy warrants detailed investigation. Sector-specific analyses could reveal whether the observed patterns hold uniformly across industries or vary according to business models, asset structures, or regulatory environments.

Second, the dynamic evolution of value relevance metrics in response to India's continuing accounting and regulatory reforms represents an important research opportunity. Longitudinal studies tracking changes in value relevance pre- and post-IFRS convergence could provide valuable insights into the real effects of accounting standards changes.

Third, the moderating role of corporate governance mechanisms, audit quality, and ownership structures in enhancing the value relevance of earnings information deserves systematic examination. Understanding the conditions under which earnings regain their informativeness could inform both corporate practices and regulatory interventions.

Finally, comparative studies examining value relevance patterns across different emerging markets could help distinguish India-specific institutional factors from broader emerging market characteristics. Such cross-country analyses would contribute to developing a more comprehensive theoretical understanding of the institutional determinants of accounting information relevance.

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