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EARNINGS PER SHARE: THE TRUE VALUE OF EARNINGS OF A SHAREHOLDER

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ABSTRACT

Financial statements savvy and other users may not be as knowledgeable as those who have been touting EPS as the holy grail of financial performance for too long. Companies needed to report income in every three months for the companies in the India, suitable "quarteritis" labeled and heavy pressure on managers to give acceptable EPS performance. Internationally, managers have aware of the effect of EPS surprise at the prices of shares and resulting in suspicious extreme emphasis on short term EPS performance. Earning-linked compensation plans are spinoff this passion with the performance of short-term earnings. The pressure coming from the intestinal wires of constantly positive EPS growth has deemed the depth of managerial behavior. Instead of focusing on efforts and energy on those projects, which will maximize shareholder money in the long run, the manager attacks all types of plans for the management of EPS. Keeping this fact that the manger's performance is often measured in the context of EPS, manger does not measure the expectations for remuneration and job safety, clearly clear. This study underlines the popularity of EPS as the financial performance criteria, but also adds three clear limitations, i.e. the inability to refresh an underlying bias to shareholder fund, EPS management and positive EPS growth. After this, the study is based on the issue of bias related to the positive EPS growth and uses the case study approach to analyze EPS development of three companies. The conclusion is that inflation, retained earnings and increased asset investment due to debt, the operating leverage and the financial leverage is the main factors determined by the EPS growth. Apart from four factors, the EPS growth is said to be "additional" EPS growth, and no one of the three companies selected was able to generate positive "extra".

Keywords: *Performance, Behaviour, Financial, Shareholder's Worth, Investment, Leverage, Wealth.*

Introduction

In India the currency market is an opportunity for all investors. For this reason, financial experts should estimate the value to make the best use of its investment value. The cost of business area of the shares does not look in nature and they are modified in minutes from each minute. They are controlled with the strength of interest and supply. The component cost of shares is going to determine any person to invest in decision making. The basic form of market costs is that the cost of financial experts is ready to get or present the offer on specific business units. In short, this remaining cost is on which the proposal is being exchanged within the continuous area. There are different approaches to estimate the area, within the basic major key standards, EPS, DPS and P/E ratios. The most important objective of monetary management within every organization is worth expanding. The price extension criteria depends on the concept of funds generated by the likelihood of investment, as well as the value expansion is employed in the context of value for owner's common shareholders. Properties of proprietors will reflect within market value estimates, it is an important variable which effects business estimates useful proposal. Supplying and offering organizations and services to the general public of society, taking the income in the excess of the valuable goods and administration and its expenditure for

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the civilians in the highly general public, connects to its store and develops markets. The price is that after the investment of all liabilities, the remaining cases of monetary experts in resources. Within this incident that if liability becomes more than resources, negative equity is present.

Objective of the Study

The previous sections told EPS appealing and explosions on the boundaries and highlights three main issue which contribute to its unreliability. This study focuses on the third border, which is underlying bias for EPS growth. Consequently, the purpose of the study is to analyze the EPS growth to find its major contribution components and on the earnings of the next year, the effect of profit made of given year has to evaluate the effect of operating leverage and financial leverage on EPS growth.

What is Earning Per Share and Why it is Important

Ratio analysis is one of the most widely used tools of all time to measure the financial success of companies. In fact, the proportions reveal the major realities that deal with the operation and financial status of companies. Financial analyst uses market ratio to research financial status. The market share price for investors and shareholders companies and also care for the ratio of showing it. Most of those proportions support current market conditions. Generally, market ratio is used for investment decisions and long-term plans. The income per share (EPS) is generally considered the most main factor to see the stock price and firm value. The most objective of this report is to find the effects of EPS which reflects the fluctuations in the price of the stock. A speculation (EPS and share value to follow the same track) is taken to find out the factors which show that there is a trend of positive and negative change of share price and hence EPS is not working. So, any explanation for this can easily recognize this concept that the right market is not working. During this article, we have received analysis on the analysis part, and as well as the reason we get, they are many factors related to it. The income per share (EPS) represents the part of the earnings of the company. The net dividend of taxes and preference shares, which is allocated to each shares of normal shares. Often this figure is calculated by the division of profit earned in a very reporting period (usually quarterly or annual) by dividing the whole number of outstanding shares during the same period. Since the amount of outstanding shares can be fluctuated, so the weighted average is often used. In order to determine the share price, the income per share is generally considered to be the only the most important variable. It is also an important component to calculate the cost by earning assessment ratio. For example, suppose that an organization earns a net of 10 crores. If corporate pays 1 million in preferred dividend and has ten million shares for the first half of the year and there are 15 lakh shares for the next half, then EPS will be INR 72 (9 crores / 12.5 lakh). First of all, 1 crores is deducted from the net income to induce 10 crores, then a weighted average is taken to find out the amount of outstanding shares. It is also used because it often covered within the P/E ratio. EPS is often calculated in two different ways: basic and completely slender. Fully thin EPS which are the factor of potential weak effects of warrant, stock options and convertible securities in stock, mostly seen as more accurate measures and it is usually cited. EPS is often subjected with fundamental rehabilitation. The evaluation of profitability will be done by past (past) income, recent (present) income or estimated future (further) income. However, the earnings per share is widely considered to be the most popular way to measure the profitability of a firm, it is important to remember that earnings can often be prone to manipulation, accounting change and recalculation. For this reason, free income by some people is seen as more reliable indicators than EPS.

Basic EPS v/s Diluted EPS

Basic EPS does not take into account the dilution impact of the shares that may be issued by the corporate. When the components of an organization include stuff like stock option, warrants, restricted stock unit (RSU), using these investments can increase the entire number of outstanding shares within the market. To better explicitly conversion results on the income per share, companies also report thin EPS, which believe that each stock of the outstanding are issued. As an example, sometimes a lender will provide a loan which allows them to change the loan in shares under certain conditions. Shares made by convertible loans should be include within every of the diluted EPS calculation, but if it happened, then the corporate will not have to pay interest on loans. During this case, the corporate or analyst will add interest to the transportation loan in the fraction of EPS calculation, so the result is not distorted.

Limitations of EPS

The borders of EPS have been summarized in three categories that is its failure to reflect an underlying bias to shareholder value generation, income management and positive EPS growth. Their discussion has been done in the upcoming sections.

- **The Failure of EPS to Reflect Shareholder Value Construction:** assessment of the firm's long-term market value according to Jensen (2002) "there are its roots in 200 years research in economics and finance". Value is determined by the magnitude, timing, and risk of the company's future free cash flow. How to determine the value of equity valuation methods, use discounted cache flow techniques to estimate the current value of future cash flows to determine the value of today's shares. Companies pursue the target of value maximization by investing in projects processed more than the cost of capital, which receives positive net current (NPVs). By investing in new projects with positive NPVs, the value is made by the expansion of the size of the current projects with negative NPVs and by increasing the potential cash flow and by the increase or current or the improvement of the current cash with the positive NPVs by improving the current projects. The trick between current income and future cash flow is not completely clear and earnings, more and more, can be done as a signal or sign of the uncertainly of possible potential, time and future cash flow.
- **Income Management:** management shareholder can take support for the accounting footwork to maximize EPS instead of the value. Stewart (2002) commented in the context of Enron: the company's top officials were raised in the rogue EPS management cycle so they were supported by the fraudulent accounting to hide most debt to use their funding to fund its EPS development. In order to manipulate earnings, there is a high incidence of the use of he applied in the form of the prices of CEO more closely than the value of the potential compensation. They cited capitalization of operating expenditure by WorldCom as a clear example of the wrong application of providing accounting. Reported EPS have been increased by reducing the number of ordinary shares issued and the report of Hribar, Jenkins, Johnson (2006:26) reports that investors identify and rebate the effects of these tasks.
- **Implicit Bias Towards Positive EPS Development:** Jacon (1968) shows that a company's continuous growth rate (SGR) is not only on its return on property, but also on its financial policies. Gentry and pyhrr (1973) has also developed an interactive model which enables managers to test the effect of various input variables on the expected EPS growth. Hamman (1996) tested the variations of the SGR model and among others. The result of the scenario was where only the earned and any new debt was not used, as well as the landscape where new loans and new equity are used.

Relationship of EPS Capital and Dividend

EPS"s a major aspect which is often ignored, it is that the capital coming with income (net income) within the calculation. Recognize the companies which will be accustomed, which are more efficient, it is the return on equity (ROE). While EPS is widely used to detect a company's performance, shareholders do not have direct access to those benefits. A little part of the earning is also distributed as dividends, but all or some EPS can be maintained by corporates. Shareholders, through their representatives in the board of directors, the part of EPS will be changed through which dividends are distributed so that these benefits can be used more. Since the shareholder cannot reach the EPS responsible for its share, it is often difficult to define the connection between the cost of EPS and share. It can be especially true for those companies that do not pay dividends. As an example, technology is not unfairly to reveal this within initial public offer documents that do not pay corporate dividends and there is no plan to try doing so in the future. On the surface, it is different to clarify why these shares will have any value for shareholders. Special fictional value of EPS also holds comparatively indirect relations with the price of the stock. For example, EPS for 2 shares may be the same, but share prices may also very wildly. Stocks that are expected to rise (for example, technology, retail, industrial) will have higher price-to-EPS (P/E) ratio than those that are not expected to rise.

Conclusion

Some of the most EPS will be available most, yet as the most controversial, financial performance measures. Despite being equally a favorite between financial experts and common people, EPS has been predefined for the wrong incorrect and incorrect interpretation. This study highlights three relevant issues which contribute to the unrealism of EPS, namely EPS failure to reflect an underlying bias to shareholder value, income management and positive EPS growth. The focus of this study is on the search of the response to the factors that contribute to the president EPS growth percent. A case study approach is used to analyze EPS development of three companies listed in JSE South Africa, i.e. Shoprite, Italtile and Hudaco, to check that how different factor affects EPS growth. The analysis shows that, in view of a positively paid income and other alleged assumptions in the last year, four major factors contribute to reports EPS growth. These factors are increased investment, operating leverage and financial levitation in the assets funded by inflation, retained benefits and loans. After recognizing and determined the amount of these four factors, it is possible to calculate the "extra" EPS growth above increase in the four factors mentioned. Comparing the EPS growth for each company shows that the effect of inflation is important and its capital structure for the company is slightly more with more loans in Hudaco. The contribution of more amount of investment capital has been found significantly and the amount of this factor can be attributed to the amount of profit maintained in the previous year as well as capital structure and cost structure. The effect of operating leverage was important and there was not much difference between the three companies analyzed. As it could be estimated, the effect of financial leverage was unimportant for Shoprite and Italtile, which took less loan amount, but it was important for Hudaco and very high, wwhich has high levels loans in the capital structure. No company was just able to generate "extra" EPS growth more than the combined effect of the discussion factors. In the fields of future potential research, more companies can be expanded on current studies by inclusion of more companies for long periods. In addition, EPS growth analysis between different areas can be compared and can be shipped to the assumption of some beliefs, for example, to assist the model and to test its results, no new stock can be shown. It is expected that this study will contribute to the better understanding of the factors affecting EPS growth and will enable the more inflation of financial statements and other users to report more subtle interpretation of EPS growth.

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