

Does Profit Growth Predict Future Stock Returns? An Empirical Study of Indian It Companies

Sangeetha K
PES University

Abstract—This study examines whether profit growth predicts future stock returns among selected Indian IT companies. The study is motivated by the view that improvements in corporate profitability may provide useful information about a firm's future performance and may therefore be reflected in subsequent stock returns. However, the relationship between profitability growth and stock returns remains uncertain, particularly within the Indian IT sector. To address this issue, the study uses secondary quantitative data for 30 selected listed Indian IT companies covering FY2016–FY2025, resulting in 300 firm-year observations. Profit After Tax (PAT) is used to calculate annual profit growth, while future stock return is measured as the stock return in the subsequent financial year. Firm size and prior stock return are included as control variables. The analysis employs descriptive statistics, correlation analysis, Variance Inflation Factor (VIF), the Breusch–Pagan test, outlier analysis, and panel-data regression techniques. The Panel Fixed Effects model is selected as the primary model based on model-selection tests, with company-clustered standard errors used to obtain more reliable statistical inference. The results indicate that profit growth has a positive but statistically insignificant relationship with future stock returns ($\beta = 0.0222$, $p = 0.2357$). Thus, the study does not find sufficient evidence to support the hypothesis that higher profit growth significantly predicts higher future stock returns. In contrast, firm size and prior stock return show significant negative relationships with future stock returns. A winsorized Fixed Effects model is also conducted as a robustness check, and profit growth remains statistically insignificant ($p = 0.1510$), indicating that the main finding is not substantially influenced by extreme observations. Overall, the study concludes that profit growth alone is not a significant predictor of future stock returns in the selected Indian IT companies. The findings suggest that investors may need to consider additional financial, market and firm-specific factors when evaluating future stock performance.

Index Terms—Profit Growth, Future Stock Returns, Indian IT Companies, Panel Data, Fixed Effects Model, Firm Size, Prior Stock Return.

I. INTRODUCTION

The stock market plays an important role in the allocation of capital by providing companies with access to funds and investors with opportunities to earn returns. Stock returns are influenced by a wide range of factors, including a company's financial performance, growth prospects, market conditions, investor expectations and firm-specific characteristics. Among financial performance indicators, profitability and profit growth are particularly important because they provide information about a company's ability to generate earnings and improve its financial position over time. However, an increase in a company's profits does not necessarily result in an increase in its stock price or future stock returns.

Profit growth refers to the increase or decrease in a company's profit compared with the previous period. Higher profit growth may indicate improving business performance, increasing operational efficiency or stronger demand for a company's products and services. From an investor's perspective, sustained growth in profitability may therefore be considered a positive signal about a company's future prospects. However, stock prices are determined not only by current financial performance but also by investors' expectations regarding future performance. If expected profit growth has already been reflected in the stock price, an increase in reported profits may not necessarily generate higher future returns.

The relationship between profitability growth and stock returns has received considerable attention in financial research. Previous studies have examined earnings growth, earnings acceleration, profitability, firm quality and other accounting-based measures as

potential predictors of stock returns. Some studies have reported a positive relationship between improvements in profitability and subsequent stock returns, while others have found that the relationship depends on factors such as valuation, firm characteristics, market conditions and investor expectations. These mixed findings indicate that the ability of profit growth to predict future stock returns cannot be assumed to be the same across all markets and sectors.

The Indian IT sector provides an important setting for examining this relationship. India has a large and internationally competitive information technology industry consisting of both large established companies and smaller listed firms. IT companies are influenced by factors such as global technology demand, outsourcing trends, foreign exchange movements, technological changes, competition and changes in client spending. Consequently, changes in reported profits may not always translate directly into changes in subsequent stock returns. Examining the relationship specifically within the IT sector can therefore provide useful evidence on whether accounting-based profit growth contains information about future stock performance.

The present study focuses on 30 selected listed Indian IT companies over the period FY2016–FY2025. The study uses Profit Growth, measured through year-on-year growth in Profit After Tax (PAT), as the primary independent variable. Future Stock Return, measured as the stock return in the subsequent financial year, is used as the dependent variable. The study also incorporates Firm Size and Prior Stock Return as control variables because differences in company size and previous stock performance may influence subsequent returns.

A panel-data approach is adopted because the study examines multiple companies over multiple financial years. Descriptive statistics and correlation analysis are first used to understand the characteristics and relationships among the variables. Diagnostic tests are then conducted to examine issues such as multicollinearity, heteroskedasticity and extreme observations. Panel Fixed Effects regression is used as the main empirical method to account for company-specific characteristics that may affect stock returns. A winsorized Fixed Effects model is additionally employed as a robustness check to determine whether extreme observations materially influence the results.

The study aims to contribute to the existing literature by providing sector-specific evidence on the relationship between profit growth and future stock returns in the Indian IT industry. While previous research has examined profitability, earnings growth and stock returns across different markets and industries, relatively limited attention has been given specifically to annual profit growth as a predictor of subsequent stock returns among Indian IT companies. The findings of this study can therefore provide a better understanding of whether historical profit growth contains useful information for explaining future stock performance in this sector.

Overall, the study seeks to answer a central question: Does profit growth significantly predict future stock returns among selected Indian IT companies? By examining this relationship using firm-level panel data and controlling for relevant factors, the study provides empirical evidence on whether changes in profitability are reflected in subsequent stock market performance.

II. LITERATURE REVIEW

The relationship between profitability and stock returns has been widely examined in financial research. Previous studies have investigated earnings growth, profitability, firm quality, earnings momentum and other accounting-based indicators as possible determinants of future stock performance. However, findings differ across markets, sectors and measures of profitability. This creates scope to examine whether profit growth can predict subsequent stock returns specifically among Indian IT companies.

Saji and Harikumar (2015) examined earnings growth and the value premium among 32 Indian IT companies during 2000–2010. Their findings indicated that earnings growth and the earnings-price ratio were associated with stock returns. However, the study focused mainly on valuation and the value premium rather than whether annual profit growth predicts subsequent-year returns.

Balachandran and Mohanram (2012) examined earnings growth by separating growth arising from residual income and invested capital. They found that growth in residual income was more persistent and positively associated with future returns, highlighting the importance of the quality of earnings growth. However, their study was based on U.S. firms.

Kyosev et al. (2020) investigated whether earnings growth explains the quality premium in equity markets. They found that accounting-based quality measures were more strongly related to stock returns when they were able to predict earnings growth. The study supports the importance of earnings growth but does not specifically examine Indian IT companies.

Sehgal and Jain (2015) examined price, earnings and revenue momentum among 493 BSE 500 companies. They found that earnings momentum generated persistent returns and was particularly relevant compared with revenue momentum. However, their study focused on earnings momentum rather than annual profit growth.

He and Narayanamoorthy (2020) examined earnings acceleration and future stock returns using a large sample of firms. Their findings showed that earnings acceleration had significant explanatory power for future excess returns. However, the study used quarterly earnings acceleration and a broad international sample rather than annual profit growth in Indian IT companies.

Yin and Yang (2022) examined profitability growth and profitability acceleration in the Chinese stock market. They found a positive profitability-growth premium, suggesting that changes in profitability contain information beyond current profitability levels. However, the study focused on China rather than the Indian IT sector.

Cai et al. (2018) investigated profitability and profitability growth in China's A-share market. Their findings indicated that profitability growth was positively associated with subsequent stock returns. Although highly relevant to the present study, their evidence comes from the Chinese market rather than Indian IT companies.

Lim et al. (2024) provide the main theoretical foundation for the present study by examining changes in profitability and future stock returns. Their theoretical and empirical results indicate that higher current profitability growth is associated with higher future stock returns, while the relationship becomes weaker for larger firms. The present study extends this framework to Indian IT companies using recent firm-level panel data.

Lalwani and Meshram (2022) examined the cross-section of Indian stock returns using 35 firm characteristics and both traditional and machine-

learning methods. Their findings showed that firm characteristics contain useful information for explaining stock returns. However, the study considered broad return predictors rather than isolating profit growth within the IT sector.

Sehgal and Pandey (2021) examined firm quality and stock returns using data from 1,848 Indian companies. They found that profitability was an important component of firm quality and that improvements in quality were associated with stock returns. However, the study examined overall firm quality rather than annual profit growth.

Sharma et al. (2015) examined sales, net profit and EPS in relation to stock behaviour among Indian companies. Their results did not provide consistent evidence that the levels of these accounting variables could explain future stock prices. The present study differs by examining changes in profit rather than absolute profit levels.

Gupta and Ansari (2025) examined gross profitability and momentum in the Indian stock market. Their results showed positive performance from profitability-based strategies and from combining profitability with momentum. However, the study focused on gross profitability and momentum rather than year-on-year profit growth.

Kaur et al. (2025) examined the value relevance of earnings forecasts and expected returns using Indian equities. Their findings highlighted the importance of persistent earnings and accounting information in explaining expected returns. However, the study focused on valuation and earnings forecasts rather than annual profit growth among Indian IT companies.

Chaturvedi Sharma (2023) examined sustained earnings and stock returns in the Indian financial services sector using a dynamic panel-data approach. The study highlighted the relevance of operating earnings for stock performance. However, it focused on financial services and sustained earnings rather than profit growth in IT companies.

Anjaria and Bhardwaj (2025) examined P/E ratios and stock returns among NIFTY IT companies. Their findings indicated that the relationship between valuation ratios and returns varied across firms. However, the study focused on P/E valuation rather than changes in profitability.

III. RESEARCH GAP

The existing literature indicates that earnings, profitability and changes in fundamental performance can provide information relevant to stock returns. However, previous studies have largely examined earnings momentum, firm quality, valuation ratios, gross profitability, broad firm characteristics or profitability growth in markets outside India.

A specific gap therefore exists in examining whether annual profit growth predicts subsequent stock returns among Indian IT companies. While studies such as Lim et al. (2024), Yin and Yang (2022), Cai et al. (2018) and Balachandran and Mohanram (2012) provide evidence linking profitability or earnings growth with future returns, their samples and settings differ from the Indian IT context.

The present study addresses this gap by examining 30 Indian IT companies over FY2016–FY2025, using profit growth as the primary explanatory variable and future stock return as the dependent variable. Firm size and prior stock return are included as control variables. This provides sector-specific evidence on whether the profitability-growth relationship documented in earlier research is observable in the Indian IT sector.

IV. PROBLEM STATEMENT

Profit growth is generally considered an important indicator of a company's financial performance and may influence future stock returns. However, it is unclear whether higher profit growth actually leads to higher subsequent stock returns. Existing studies provide mixed evidence and limited research focuses specifically on Indian IT companies. Therefore, this study examines whether profit growth predicts future stock returns among selected Indian IT companies during FY2016–FY2025.

HYPOTHESIS

H_0 (Null Hypothesis):

There is no significant relationship between profit growth and future stock returns among Indian IT companies.

H_1 (Alternative Hypothesis):

There is a significant positive relationship between profit growth and future stock returns among Indian IT companies.

V. OBJECTIVES

□ To examine the relationship between profit growth and subsequent stock returns among selected listed Indian IT companies.

□ To assess whether current profit growth has significant predictive power for future stock returns.

□ To evaluate whether the relationship between profit growth and future stock returns remains significant after controlling for relevant firm-specific characteristics.

VI. RESEARCH METHODOLOGY

RESEARCH DESIGN

This study adopts a quantitative research design to examine whether profit growth predicts future stock returns among selected Indian IT companies. The study uses secondary data collected from publicly available financial and stock-market sources. A panel-data approach is used because the study covers multiple Indian IT companies over multiple financial years.

The study covers 30 selected listed Indian IT companies for FY2016–FY2025. Profit growth is considered the main independent variable, while future stock return is the dependent variable. Firm size and prior stock return are included as control variables. Panel Fixed-Effects regression is used as the main analytical method to account for company-specific characteristics that remain relatively constant over time. A winsorized Fixed-Effects regression is also conducted as a robustness check.

RESEARCH APPROACH

The study follows a quantitative research approach based on secondary data. Financial and stock-market data of 30 selected listed Indian IT companies are collected for the period FY2016–FY2025. The study examines whether changes in company profitability, measured through profit growth, are associated with and can predict future stock returns. Statistical techniques including descriptive statistics, correlation analysis, diagnostic tests and panel-data regression are used to analyse the relationship between the variables.

DATA TYPE AND SOURCES

The study uses secondary quantitative data for 30 selected listed Indian IT companies covering the

period FY2016–FY2025. Financial data including Profit After Tax (PAT), Sales, Profit Before Tax (PBT), and Earnings Per Share (EPS) are collected from Screener.in. Stock price data required for calculating stock returns are obtained using Python through the Yahoo Finance (yfinance) library. Shares outstanding and market capitalization data are obtained from the relevant financial and company sources. The collected data are organized into a panel dataset containing 300 firm-year observations.

SAMPLE SELECTION

The study uses a sample of 30 selected listed Indian IT companies. The companies were selected based on their presence in the Indian IT sector and the availability of consistent financial and stock-market data for the study period. The sample covers the period FY2016–FY2025, resulting in 300 firm-year observations. The selected companies include both large established IT firms and smaller listed IT companies, providing a broad representation of the Indian IT sector.

VARIABLES OF THE STUDY

Dependent Variable

Future Stock Return (FSR)

Measured as: Stock return in the subsequent financial year (%)

Independent Variable

DATA ANALYSIS AND INTERPRETATION

DESCRIPTIVE STATISTICS

	count	mean	std	min	max
Profit Growth (%)	300	22.58	109.46	-94.49	1703.87
Future Stock Return (%)	300	26.24	81.32	-71.82	565.4
Prior Stock Return (%)	269	36.62	83.88	-71.82	565.4
Firm Size	300	8.17	2.37	1.94	13.48
PAT (₹ Cr)	300	2981.15	7547.87	0.2	48797
Sales	300	17815.15	40464.88	10.12	255324
PBT	300	3957.3	10090.44	0.24	65331
EPS	300	43.98	91.56	0.11	1446.78

The descriptive statistics are based on 300 firm-year observations from 30 selected Indian IT companies during FY2016–FY2025. Profit Growth has a mean of 22.58% and a standard deviation of 109.46%, indicating considerable variation in profit growth across companies and years. Future Stock Return has

A. Profitability Variable

1. Profit Growth (PG) Measured as: Year-on-year percentage growth in Profit After Tax (PAT)

B. Control Variables

1. Firm Size (FS) Measured as: Natural logarithm of Market Capitalization
2. Prior Stock Return (PSR) Measured as: Stock return of the previous financial year (%)

Data Processing and Preparation

Techniques Used

1. Descriptive Statistics
 - To summarize the characteristics of the variables.
2. Correlation Analysis
 - To examine the relationships between the variables.
3. Diagnostic Tests
 - Variance Inflation Factor (VIF)
 - Heteroskedasticity Test
 - Outlier Analysis
4. Panel Data Analysis
 - Fixed Effects Model
 - Random Effects Model
5. Hausman Test
 - To select between the Fixed Effects and Random Effects models.
6. Robustness Analysis
 - Winsorized Fixed Effects Model
 - To examine whether extreme observations affect the regression results.

a mean of 26.24% with a standard deviation of 81.32%, showing substantial variation in subsequent stock performance. Prior Stock Return has a mean of 36.62% and a standard deviation of 83.88%, based on 269 valid observations. Firm Size has a mean of 8.17 and a standard deviation of 2.37, indicating differences

in the size of the companies in the sample. Among the financial variables, the average PAT is ₹2,981.15 crore, average Sales are ₹17,815.15 crore, average PBT is ₹3,957.30 crore, and average EPS is ₹43.98. The relatively high standard deviations, particularly for Profit Growth, PAT, Sales, PBT and EPS, indicate

substantial differences in financial performance among the selected companies. Overall, the descriptive statistics show that the sample contains considerable variation in both profitability and stock-market performance, providing a suitable basis for further correlation and regression analysis.

CORRELATION ANALYSIS

	Profit Growth (%)	Future Stock Return (%)	Firm Size	Prior Stock Return (%)
Profit Growth (%)	1	-0.036	-0.039	0.152
Future Stock Return (%)	-0.036	1	-0.158	-0.215
Firm Size	-0.039	-0.158	1	0.074
Prior Stock Return (%)	0.152	-0.215	0.074	1

The correlation analysis examines the relationship between the main variables of the study. The correlation coefficient ranges from -1 to +1, where a positive value indicates a positive relationship and a negative value indicates an inverse relationship. The correlation between Profit Growth and Future Stock Return is -0.036, indicating a very weak negative relationship. This suggests that profit growth and subsequent stock returns have almost no linear relationship in the sample. Profit Growth and Firm Size have a correlation of -0.039, indicating a very weak negative relationship. Profit Growth and Prior Stock Return have a correlation of 0.152, indicating a weak positive relationship. Future Stock Return has a correlation of -0.158 with Firm Size and -0.215 with Prior Stock Return, indicating weak negative relationships. The correlation between Firm Size and Prior Stock Return is 0.074, showing an almost negligible positive relationship. Overall, the correlation results indicate that Profit Growth has no strong linear relationship with Future Stock Return. However, correlation analysis alone does not determine whether profit growth significantly predicts future stock returns. Therefore, regression analysis is conducted to examine the predictive relationship while controlling for other relevant variables.

VIF / MULTICOLLINEARITY TEST

Variable	VIF
Profit Growth (%)	1.061
Firm Size	1.209
Prior Stock Return (%)	1.226

Interpretation

The Variance Inflation Factor (VIF) test was conducted to check whether the independent and control variables are highly correlated with each other, which could create multicollinearity in the regression model. The VIF values are 1.061 for Profit Growth, 1.209 for Firm Size, and 1.226 for Prior Stock Return. All values are well below the commonly used threshold of 5, indicating that there is no serious multicollinearity among the explanatory variables. Therefore, Profit Growth, Firm Size, and Prior Stock Return can be included together in the regression model without a major multicollinearity concern.

BREUSCH-PAGAN TEST (HETEROSKEDASTICITY)

	Value
LM Statistic	11.4295
LM P-value	0.0096
F Statistic	3.9197
F P-value	0.0092

Interpretation

The Breusch-Pagan test was conducted to examine whether the regression model suffers from heteroskedasticity. The test produced an LM statistic of 11.4295 with a p-value of 0.0096, while the F-statistic was 3.9197 with a p-value of 0.0092. Since both p-values are below the 0.05 significance level, the null hypothesis of constant error variance is rejected. This indicates that heteroskedasticity is present in the data. Therefore, company-clustered standard errors

were used in the panel fixed-effects regression to obtain more reliable statistical inference.

OUTLIER ANALYSIS

Outlier analysis was conducted using the Interquartile Range (IQR) method to identify unusually high or low observations in the study variables. The IQR method identifies observations that fall below the lower bound or above the upper bound based on the first and third quartiles. The identified outliers were not removed from the original dataset, as extreme values may represent genuine changes in company performance or stock prices. Instead, winsorization was subsequently applied as a robustness check to examine whether extreme observations materially influence the regression results.

HAUSMAN TEST

Before estimating the panel regression model, the Hausman test was conducted to determine whether the Fixed Effects (FE) or Random Effects (RE) model was more appropriate for the study.

Hypotheses

H₀: The Random Effects model is appropriate for the panel data.

H₁: The Fixed Effects model is appropriate for the panel data.

Hausman Test Results

Statistic	Value
Hausman Test Statistic	333.0673
Degrees of Freedom	3
P-value	<0.001

Interpretation

The Hausman test produced a test statistic of 333.0673 with a p-value of less than 0.001. Since the p-value is below the 0.05 significance level, the null hypothesis is rejected. Therefore, the Fixed Effects model is preferred over the Random Effects model. Based on this result, the Panel Fixed Effects model is selected as the main regression model for the study.

PANEL FIXED EFFECTS REGRESSION

The Panel Fixed Effects model was estimated to examine whether Profit Growth predicts Future Stock Return, while controlling for Firm Size and Prior Stock Return.

Panel Fixed Effects Regression Results

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Profit Growth (%)	0.0222	0.0186	1.1889	0.2357
Firm Size	-42.9903	5.7502	-7.4764	<0.001
Prior Stock Return (%)	-0.1496	0.0239	-6.2610	<0.001

Model Information	Value
Observations	269
Companies	30
Within R ²	0.2396
Robust F-statistic	25.3269
Prob. (F-statistic)	<0.001
Fixed Effects	Company
Standard Errors	Clustered by Company

Interpretation

The Panel Fixed Effects regression was conducted to examine the relationship between profit growth and future stock returns while controlling for firm size and prior stock returns. Profit Growth has a positive coefficient of 0.0222, indicating a positive estimated relationship with future stock returns. However, its p-value of 0.2357 is greater than 0.05, indicating that the relationship is not statistically significant. Therefore, the study does not find sufficient evidence that profit growth significantly predicts future stock returns among the selected Indian IT companies. Firm Size has a significant negative coefficient of -42.9903 ($p < 0.001$), while Prior Stock Return also has a significant negative coefficient of -0.1496 ($p < 0.001$). The overall model is statistically significant, with a Robust F-statistic of 25.3269 ($p < 0.001$) and a Within R² of 0.2396, indicating that the model explains approximately 23.96% of the within-company variation in future stock returns.

ROBUSTNESS ANALYSIS – WINSORIZED PANEL FIXED EFFECTS REGRESSION

To examine whether extreme observations materially influence the regression results, a winsorized Panel Fixed Effects regression was conducted. The variables were winsorized at the 1st and 99th percentiles, and the Fixed Effects model was re-estimated using company-clustered standard errors.

Winsorized Panel Fixed Effects Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-value
Profit Growth (%)	0.0824	0.0572	1.4406	0.1510
Firm Size	-40.5323	4.6407	-8.7342	<0.001
Prior Stock Return (%)	-0.1622	0.0286	-5.6672	<0.001

Statistic	Value
Observations	269
Number of Companies	30
Within R-squared	0.241956
F-statistic	25.10924
F-statistic P-value	3.9E-14
Robust F-statistic	37.41968
Robust F-statistic P-value	1.11E-16
Poolability F-statistic	2.138619
Poolability P-value	0.001052

Interpretation

The winsorized Panel Fixed Effects regression was conducted to examine whether the relationship between profit growth and future stock returns remains consistent after reducing the influence of extreme observations. Profit Growth has a positive coefficient of 0.0824, indicating a positive estimated relationship with future stock returns. However, its p-value of 0.1510 is greater than 0.05, indicating that the relationship is not statistically significant. Therefore, the study does not find sufficient evidence that profit growth significantly predicts future stock returns even after winsorization. Firm Size has a significant negative coefficient of -40.5323 ($p < 0.001$), while Prior Stock Return also has a significant negative coefficient of -0.1622 ($p < 0.001$). The overall model is statistically significant, with a Robust F-statistic of 37.420 ($p < 0.001$) and a Within R^2 of 0.2420, indicating that the model explains approximately 24.20% of the within-company variation in future stock returns. Overall, the robustness results are consistent with the main Fixed Effects regression.

VII. FINDINGS OF THE STUDY

- Profit Growth was not a significant predictor of future stock returns among the selected Indian IT companies.
- The correlation between Profit Growth and Future Stock Return was very weak ($r = -0.036$), indicating almost no linear relationship.

- The Panel Fixed Effects model showed a positive coefficient for Profit Growth ($\beta = 0.0222$), but the relationship was not statistically significant ($p = 0.2357$).
- Firm Size had a significant negative relationship with Future Stock Return ($\beta = -42.9903$, $p < 0.001$).
- Prior Stock Return had a significant negative relationship with Future Stock Return ($\beta = -0.1496$, $p < 0.001$), suggesting a possible return reversal pattern.
- The Hausman test supported the Fixed Effects model over the Random Effects model ($p < 0.001$).
- The winsorized Fixed Effects model produced similar results, with Profit Growth remaining statistically insignificant ($p = 0.1510$), confirming the robustness of the main finding.
- Overall, the study does not support the hypothesis that higher profit growth significantly predicts higher future stock returns among the selected Indian IT companies during FY2016–FY2025.

VIII. DISCUSSION

The present study examined whether profit growth predicts future stock returns among 30 selected Indian IT companies during FY2016–FY2025. The findings provide limited support for the view that accounting-based profit growth alone can explain subsequent stock market performance. Although Profit Growth showed a positive coefficient in the Panel Fixed Effects model ($\beta = 0.0222$), the relationship was statistically insignificant ($p = 0.2357$). Therefore, the results do not provide sufficient evidence to conclude that higher profit growth leads to higher future stock returns in the sample.

The weak correlation between Profit Growth and Future Stock Return ($r = -0.036$) further indicates that there is almost no linear relationship between the two variables. The simple regression also produced an insignificant result, suggesting that profit growth by

itself has very limited explanatory power for subsequent stock returns. Even after controlling for Firm Size and Prior Stock Return, Profit Growth remained insignificant. This suggests that investors may consider several other factors beyond reported profit growth when determining the market value and expected returns of IT companies.

The significant negative coefficient of Firm Size indicates that larger companies in the sample tended to experience lower subsequent stock returns, after controlling for other variables. Similarly, Prior Stock Return showed a significant negative relationship with Future Stock Return. This may indicate a possible return-reversal pattern, where companies with relatively high previous returns tend to experience lower subsequent returns.

The Panel Fixed Effects model was preferred because company-specific characteristics may influence stock returns and remain relatively stable over time. The significant poolability and Hausman results support the use of a company-specific effects framework rather than treating all observations as identical. The Fixed Effects model explained approximately 23.96% of the within-company variation in future stock returns, while the overall model was statistically significant.

The robustness analysis provides further support for the main conclusion. After winsorizing extreme observations, Profit Growth remained statistically insignificant ($\beta = 0.0824$, $p = 0.1510$), while Firm Size and Prior Stock Return remained significant. This indicates that the absence of a significant relationship between profit growth and future stock returns is not driven primarily by extreme observations.

Overall, the findings differ from some previous studies that report a positive relationship between profitability growth and future stock returns. One possible explanation is that the present study focuses specifically on Indian IT companies, where stock prices may incorporate expectations about future earnings, technological developments, market competition, global economic conditions and other firm-specific factors. Therefore, historical profit growth alone may not provide sufficient information to predict subsequent stock returns. The study consequently concludes that profit growth is not a significant standalone predictor of future stock returns in the selected Indian IT companies during the study period.

IX. CONCLUSION

This study examined whether profit growth predicts future stock returns among 30 selected Indian IT companies during the period FY2016–FY2025. Using 300 firm-year observations, the study analyzed the relationship between Profit Growth and Future Stock Return while controlling for Firm Size and Prior Stock Return.

The results indicate that Profit Growth does not have a statistically significant effect on future stock returns. Although the Panel Fixed Effects model showed a positive coefficient for Profit Growth, the relationship was statistically insignificant ($p = 0.2357$). Therefore, the study does not find sufficient evidence to support the hypothesis that higher profit growth leads to higher future stock returns.

The study also found that Firm Size and Prior Stock Return have significant negative relationships with future stock returns. The robustness analysis using winsorized data produced similar results, confirming that the main conclusion is not substantially affected by extreme observations.

Overall, the findings suggest that profit growth alone may not be sufficient to predict future stock returns in the Indian IT sector. Investors may need to consider additional financial, market and firm-specific factors when evaluating expected stock performance. The study contributes to the existing literature by providing sector-specific evidence from Indian IT companies and highlights the need for further research incorporating additional variables and alternative measures of profitability and stock performance.

REFERENCES

- [1] Anjaria, K., & Bhardwaj, S. S. (2025). A study on the relationship between P/E ratio and stock returns in the Nifty IT Index companies. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5312505>
- [2] Balachandran, S., & Mohanram, P. (2012). Using residual income to refine the relationship between earnings growth and stock returns. *Review of Accounting Studies*, 17(1), 134–165. <https://doi.org/10.1007/s11142-011-9168-1>
- [3] Cai, B., Kutan, A. M., Xiao, J., & Sun, P.-W. (2018). The missing profitability premium in China's A-shares: Explanations based on

- profitability predictability and market frictions. *SSRN Electronic Journal*.
<https://doi.org/10.2139/ssrn.3118183>
- [4] Chaturvedi Sharma, P. (2023). A panel data analysis to assess the impact of sustained earnings on stock returns: A special reference to the Indian financial service sector. *Iranian Journal of Management Studies*, 16(2), 337–354.
<https://doi.org/10.22059/ijms.2022.329084.674719>
- [5] Gupta, P., & Ansari, V. A. (2025). Gross profitability and momentum: Evidence from India. *Journal of Economics, Finance and Management Studies*, 8(2), 1321–1331.
<https://doi.org/10.47191/jefms/v8-i2-52>
- [6] He, S., & Narayanamoorthy, G. (2020). Earnings acceleration and stock returns. *Journal of Accounting and Economics*, 69(1), 101238.
<https://doi.org/10.1016/j.jacceco.2019.101238>
- [7] Kaur, S., Seth, S., Singh, J., & Kaur, P. (2025). Value relevance of cross-sectional earnings forecast model and the expected returns. *Journal of Accounting in Emerging Economies*, 15(4), 779–796. <https://doi.org/10.1108/JAEE-09-2023-0293>
- [8] Kyosev, G., Hanauer, M. X., Huij, J., & Lansdorp, S. (2020). Does earnings growth drive the quality premium? *Journal of Banking & Finance*, 114, 105785.
<https://doi.org/10.1016/j.jbankfin.2020.105785>
- [9] Lalwani, V., & Meshram, V. V. (2022). The cross-section of Indian stock returns: Evidence using machine learning. *Applied Economics*, 54(16), 1814–1828.
<https://doi.org/10.1080/00036846.2021.1982132>
- [10] Lim, B., Sotes-Paladino, J., Wang, G. J., & Yao, Y. (2024). The value of growth: Changes in profitability and future stock returns. *Journal of Banking & Finance*, 158, 107036.
<https://doi.org/10.1016/j.jbankfin.2023.107036>
- [11] Saji, T. G., & Harikumar, S. (2015). Earnings growth and value premium: The Indian experience. *Vikalpa: The Journal for Decision Makers*, 40(4), 444–454.
<https://doi.org/10.1177/0256090915608542>
- [12] Sehgal, S., & Jain, K. (2015). Profitability of price, earnings and revenue momentum strategies: The Indian evidence. *Asian Academy of Management Journal of Accounting and Finance*, 11(1), 47–84.
https://ejournal.usm.my/aamjaf/article/view/aamjaf_vol11-no1-2015_3
- [13] Sehgal, S., & Pandey, A. (2021). Firm quality and stock returns: Evidence from India. *Investment Analysts Journal*, 50(3), 189–208.
<https://doi.org/10.1080/10293523.2021.1991130>
- [14] Sharma, G. D., Mahendru, M., & Singh, S. (2015). Impact of sales, net profit, and EPS on stock behavior in emerging markets: A study of Indian companies. *Indian Journal of Research in Capital Markets*, 2(4), 7–19.
<https://doi.org/10.17010/ijrcm/2015/v2/i4/102614>
- [15] Yin, L., & Yang, Z. (2022). The profitability effect: Insight from a dynamic perspective. *International Review of Financial Analysis*, 80, 102059.
<https://doi.org/10.1016/j.irfa.2022.102059>
- [16] Data Sources
- [17] Screener. (n.d.). *Screener.in*.
- [18] Yahoo Finance. (n.d.). *Yahoo Finance*.