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Predicting Stock Returns of Infosys

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Abstract: Forecasting of stock returns is and will always be a vitally important financial notion confronted by investors. Their exist fluctuations in stock returns and investors are always keen to show their interest as they want to take the advantage of potential returns from the organization by way of investing in stocks. Hence, it becomes a matter of concern for investors to predict future stock returns so that they can attain their objective of wealth maximization. This reason creates an urge to explore forecasting of stock returns empirically. This research paper employed ARIMA methodology, developed by Box and Jenkins in 1970, which rely on the previous values of the variable itself. In the paper, this methodology is applied on the stock returns of one of the top IT companies listed on NSE i.e. Infosys Ltd. Data of daily return was collected from 1 April 2008 till 31st March 2018. Results concluded that ARIMA model had strong capability of forecasting in short run.

Keywords: ARIMA, Stock Returns, Forecasting.

INTRODUCTION

Forecasting stock returns is always been a topic for discussion in contemporary financial literature. Investors try hard to contemplate possible future returns of a company's given common stock. The question arises how to identify a probable closest return of a given stock. Traditionally, researchers have made an effort to forecast the stock returns by studying the factors which affects given firm's value or profitability. In the present research paper, an effort has been made to envisage our variable by way of the lagged values of the variable itself. Based on the popular notion of letting the data speak for itself (Gould,1981). Therefore, ARIMA (Auto Regressive Integrated Moving Average) technique has been applied to forecast the stock returns on the basis of its previous values and error term.

There have been many studies conducted on different sectors that have applied ARIMA model for prediction of various time series variables which might include stock prices as well. However, fewer studies have been conducted on IT sector to envisage stock returns of IT company using ARIMA model. More specifically, no study, as per review of literature, has been done using the daily stock returns of IT Company. The present work initiates to fill this gap by taking daily stock returns of one IT sector company in India i.e. Infosys.

Infosys Ltd was incorporated in 1981 as Infosys Consultants Pvt Ltd by Mr. N.R Narayana Murthy in Bangalore, Karnataka. It is India's second largest and world's 596th largest public IT Company based on revenue. Initially, seven engineers established Infosys in Pune, Maharashtra with an investment of $250 in 1981. In April 1992, company changed its name to Infosys Technologies Private Limited. Thereafter, again in June 1992 after becoming a public limited company named itself as Infosys Technologies Limited. Lastly, in June 2012 it renamed as Infosys Limited (Information Systems). In the beginning year's company's revenue reached to US$ 100 million which increased to US$ 1 billion in 2004 and US$ 10 billion in 2017-18. The Company was the first Indian company to be listed on the NASDAQ in the year 1999. On Bombay stock exchange its shares were listed for the first time in February 1993 with trading opening at 145 per share.

REVIEW OF LITERATURE

Afeef, M & et.al (2018) employed ARIMA methodology to forecast stock prices of a Pakistan based company namely Oil & Gas Development Company Limited (OGDCL). The researcher considered daily adjusted closing stock prices of OGDCL for almost 15 years starting from 2004 till 2018 with 3632