

FULL PAPER

The convergence of IFRS and its impact on the stock market performance of the jewelry industry

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We analyzed the effect of combining with IFRS on the stock market performance of selected jewelry organizations recorded in S&P BSE 100. The period of seven years from 2013 to 2019 was chosen and Ordinary Least Square (OLS) regression model was utilized for the examination. The results revealed that the worth of financial statements was high on converging with IFRS. The effect of budget (financial) report factors on the Indian Stock Market was proved to be evident regarding PAT. Be that as it may, all financial variables showed a huge relationship with securities exchange market indicators.

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KEYWORDS

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Introduction

As we know that change is the only constant, hence the accounting policies also transformed from ancient traditional systems to modern systems. Due to globalization and competition among the countries for attaining leadership at the economic front and to present their organizations globally, there is a need for more and more funds. The adoption of global accounting standards helps to raise capital from foreign markets and compete with other countries. If we intend to raise capital compared with the country of origin where our entity operates, we need to understand the accounting rules and regulations of that country from which we plan to raise capital. In this scenario, we cannot isolate ourselves from the rest of the world and the developments taking place around us. This led to the need for the

International Financial Reporting Standards (IFRS). During the period of late Dr. Pranab Mukharjee, as Finance Minister of India, IFRS adopted India with the Indian version of accounting standards. This convergence resulted in IndAS. This helps to bring about uniformity, rationalization, comparability, transparency, and adaptability of financial statements. This also facilitates the cross-border flow of money, global listing in different stock exchanges, and eliminates the cost of reinstatement of financial statements.

A positive response to IFRS implementation was received from firms already equipped with excellent pre-adoption data [1]. The adjustments in the stock cost, after the IFRS adoption, in various industries were found. Co-development of stock cost diminished after embracing IFRS and the extent of the effect of IFRS appropriation varied from company to company [2]. In line

with the discoveries from an overview of literature by hook (2018), IFRS has improved the straightforwardness and commonality of financial statements through point by point exposures [3].

Regarding the effect of the adoption of IFRS on the speculator's financial presentation in securities exchanges, we found that in the post-IFRS environment, the resilience of stock return to risks had been higher [4]. There exists an opposite view to some earlier researches that IFRS adoption guarantees better accounting data. They believed that there was a strong aversion to acceptance and adoption of IFRS from several business organizations [5]. With the assistance of financial ratios and accounting figures, contrasts between local GAAP and IFRS-based budget reports and the impact of IFRS on the budgetary account of 140 organizations whose stocks were traded on the Istanbul Stock Exchange, Turkey were found. They uncovered that the financial statements computed as per GAAP and IFRS were measurably extraordinary. These critical contrasts were recognized to be existing in inventories, fixed assets, long-term liabilities, and investors' equity accounts [6]. The union of Indian Accounting Standards and IFRS impact on Multinational Enterprises and giant global accounting firms could deliberately tamper with accounts related to monetary assets to suit their interests, in total disregard to the interests of the public. Similarly, the effect of IFRS on 238 organizations was investigated in Greece. It was found that IFRS significantly affected the financial position of those organizations and announced execution just as on equipping and liquidity [7]. Overall, the effect on shareholders' value and total compensation was positive, while the impact on liquidity was negative. In any case, the significant effect on liquidity and overall gain was experienced by organizations with examiners other than the Big4 evaluating and auditing firms [8]. The priority to run a business effectively is to have a decent

financial reporting framework set up [9]. Accounting professionals and accounting bodies over the globe, from a decade ago, have attempted to set up a financial reporting framework that is blended, vigorous, and has broad applicability. There were market responses to the first-time adoption of IFRS [10]. Using Tobin's Q, researchers have examined the impact of the implementation of IFRS on Chinese organizations. Their examination did not discover considerable contrasts in the mean and median of Tobin's Q after the usage of IFRS. Instead, there was a substantial contrast in the standard deviation [11]. They reasoned that a year-by-year examination of the change neglected to uphold the desire that IFRS caused the expansion in the standard deviation [12].

The objective of the study

The current study aimed at studying the effect of IFRS implementation on the stock exchange of the selected jewelry organization and proposing suggestions, if any, based on the findings.

Hypotheses of the study

H1: Adoption of IFRS by the sample gallery organizations has no impact on their stock market performances.

H2: IFRS-conformed financial reportings of sample jewelry companies have a financial impact on their stock market performances.

The methodology of the study

The study examined the financial data of 10 jewelry organizations recorded in S&P BSE100, which had embraced IFRS, with impact-analysis from April 01, 2016. Table 1 gives the rundown of 10 jewelry organizations, chosen for this investigation. The time of the examination was seven years, from 2013 to 2019, including three years pre IFRS period from 2013 to 2015 and three years of the post-IFRS period from 2016 to

2019. The nitty-gritty separation of the examination time frame is given beneath in Table 2. The necessary information for this

investigation was taken from CMIE-Prowess information bases.

TABLE 1 List of sample companies

Sl. No.	Company's name	Sector
1	Tanishq	Jewelry Organization
2	Atlas Jewellery	Jewelry Organization
3	Reliance Jewels	Jewelry Organization
4	Malabar Gold and Diamonds	Jewelry Organization
5	PC Jewellers	Jewelry Organization
6	Uday Jewellery	Jewelry Organization
7	Goenka Diamonds	Jewelry Organization
8	Kalyan Jewellers	Jewelry Organization
9	Swarnasarita	Jewelry Organization
10	Senco Gold and Diamonds	Jewelry Organization

TABLE 2 Period of the study

Period of the study	Break up of years
01.04.2013 TO 31.03.2014	PRE IFRS PERIOD
01.04.2014 TO 31.03.2015	PRE IFRS PERIOD
01.04.2015 TO 31.3.2016	PRE IFRS PERIOD
01.04.2016 TO 31.03.2017	POST IFRS PERIOD
01.04.2017 TO 31.03.2018	POST IFRS PERIOD
01.04.2018 TO 31.03.2019	POST IFRS PERIOD
01.04.2019 TO 31.03.2020	POST IFRS PERIOD

Factors and tools utilized in this study

This examination utilized four fundamental factors to gauge the effect on securities exchange execution, in connection with the IGAAP and IFRS financial reporting by sample jewelry organizations. The four factors were Price to Book Ratio, Return on Equity, Profit after Tax, and Cash flow from Operations. With the end goal of the investigation and for testing the theory, the examination relied on tools like descriptive statistics, correlation, and OLS regression was utilized [16]. The investigation utilized key factors like Return on Equity, Profit after Tax and Cash flow from activities of financial statements and summaries that included Balance Sheet, Profit And Loss Statement, and Cash Flow Statement. The stock market performance of the sample organizations was inspected by utilizing Price to Book proportion. The OLS regression equation, utilized in this investigation, is given as follows:

$$P/B_{it} = \beta + \beta_1 ROE_{it} + \beta_2 CFO_{it} + \beta_3 PAT_{it} + \epsilon_{it}$$

Where,

P/B_{it} is the ratio of market price per share to book value per share of the i^{th} company of the financial year t

CFO_{it} is the net cash flow from operating activities of the i^{th} company of the financial year t

ROE_{it} is the return on net worth or equity of the i^{th} company as at the end of the financial year t

PAT_{it} is the profit after tax of the i^{th} company for the financial year t

ϵ_{it} is the error term which is assumed to have a 0 mean and constant variation

$\beta_1, \beta_2, \beta_3, \beta_4$ are slope coefficients

β is the regular term.

Results of the study

The post effects of descriptive statistics demonstrating the attributes of sample ratios, arranged by utilizing IGAAP and IFRS, for the

example time of seven years are introduced in Table-3. It is worth noting that the Price to Book ratio was the variable used to quantify the securities exchange execution and stock market performance. ROE, CFO, and PAT were the financial statement factors. The mean estimation of cost to book ratio of 5.28, during pre-IFRS and post-IFRS, demonstrated a decrease in the mean an incentive at 5.04, after joining with IFRS by the sample firms. The standard deviation went from 2.50 to 2.37 during the pre and post IFRS period, which additionally demonstrated a declining pattern. The Return on Equity ranged from the mean of 2.01 and standard deviation of 0.83 during the pre-IFRS period to the mean estimation of 3.30 and standard deviation of 3.12 during the post-IFRS period showed a slanting pattern of ROE on converging with IFRS. Correspondingly, the CFO ranged from a mean estimation of 8019.05 and standard deviation estimation of 6568.99 during the pre-IFRS period, to a mean estimate of 8972.72 and standard deviation estimation of

9224.07 during the post-IFRS period, which demonstrated a positive increment in the income on uniting with IFRS. At last, the profit after tax extended from a mean estimation of 8730.34 and standard deviation estimate of 6654.84 during the pre-IFRS period, to a mean estimate of 8995.52 and standard deviation estimation of 7745.14 during the post-IFRS period, showing a slanting pattern of the PAT on meeting with IFRS. Accordingly, it is reasoned that all three factors (ROE, PAT, and CFO) had a constructive effect on meeting with IFRS while the P/B ratio indicated a negative impact on joining with IFRS. The examination of skewness showed that all the estimations of sample organizations against sample factors were positive, which suggested that it was correctly followed. Be that as it may, the kurtosis values for all sample firms, against sample factors were seen to be more prominent than the three ones which demonstrated extraordinary leptokurtic distribution.

TABLE 3 Results of descriptive statistics for sample variables during the period 2013-2020

Variables	Mean	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis
Pre IFRS period (2012-2015)						
Price to Book Ratio	5.28	2.50	0.83	17.03	2.36	4.76
Return on Equity	2.01	0.83	0.25	1.95	0.12	4.42
Cash Flow from Operations	8019.05	6568.99	1264.80	28815.20	1.95	5.64
Profit After Tax	8730.34	6654.84	486.10	38285.50	2.23	0.99
Post IFRS period (2016-2020)						
Price to Book Ratio	5.04	2.37	0.80	9.28	0.29	5.41
Return on Equity	3.30	3.12	0.37	19.21	0.26	9.45
Cash Flow from Operations	8972.72	9224.07	98.60	43796.10	2.92	6.59
Profit After Tax	8995.52	7745.14	268.40	31813.30	2.13	7.94

Source: Compiled from Prowess Database and computed using SPSS

Table 4 shows the post effects of connection between sample factors, i.e. P/B, ROE, PAT, and CFO. As expressed before, the P/B ratio symbolizes the securities exchange execution, and the other three factors, i.e. ROE,

PAT, and CFO symbolize the budget summary, arranged under IGAAP and IFRS. The consequences of connection unmistakably showed that there was a negative relationship with the Price to Book Ratio during the pre-

IFRS period, at - 0.081, and during the post-IFRS period at -0.025. As such, there was a converse connection between ROE and Price to Book Ratio. Also, there was a specific high relationship between the Price to Book Ratio and Profit after duty during the pre-IFRS period in 0.683 and the post-IFRS period in 0.119. Likewise, the connection between the cost to book proportion and cash flows from

operations was exceptionally certain, at 0.414, during the pre-IFRS period and with 0.213, during the post-IFRS period. Thus, it is perceived that all three financial statement factors, i.e. ROE, CFO, and PAT had impacts over the securities exchange execution and stock market performance variable, i.e. P/B proportion during the investigation time frame.

TABLE 4 Results of correlation analysis for sample variables during the period 2012-2020

Variables	Price to Book Ratio	Return on Equity	Cash Flow from Operations	Profit After Tax
Pre IFRS period (2012-2015)				
Price to Book Ratio	1	-0.081	0.414*	0.683*
Return on Equity	-0.081	1	-0.176	0.071
Cash Flow From Operations	0.414*	-0.176	1	0.687
Profit After Tax	0.683*	0.071	0.687	1
Post IFRS period (2016-2020)				
Price to Book Ratio	1	-0.025	0.213	0.119*
Return on Equity	-0.025	1	-0.280	-0.350*
Cash Flow,From Operations	0.213	-0.280	1	0.588*
Profit After Tax	0.119*	- 0.350*	0.588*	1

*Correlation is significant @ 5%

Source: Compiled from Prowess Database and computed using SPSS

The results of Table 5 show the effect of IFRS on financial statements, arranged by utilizing IGAAP and IFRS, and on the stock market performance of the sample jewelry organizations, recorded in S&P BSE100. The OLS regression examination was used to contemplate the financial effect of IFRS on the stock market performance of the sample firms, during IGAAP revealing norm and IFRS detailing principles. The P/B proportion was considered as the dependent variable and ROE, PAT, and CFO as the autonomous factors, symbolizing the financial statements of IFRS and IGAAP in this examination. The results of the financial-related effect of merging with IFRS over the stock market performance of sample firms, during the examination time frame from April 01, 2013, to March 31, 2020, are summed up in Table 6, which delineates that the estimations of coefficients, for the year 2012, were at -1.957, -0.625 and 0.526 for ROE, CFO, and PAT, with a consistent estimate of 6.857, regarding sample firms. As indicated

by the results of coefficient esteems, a positive effect on securities exchange execution was made by a Profit After Tax (PAT) and a negative impact by two factors, in particular, ROE and CFO, concerning test firms for the year 2013. For the year 2014, the coefficient estimates were accounted for as - 0.208, 0.421, and 0.361, for ROE, CFO, and PAT, with an estimation of steady at 2.990. A positive effect on stock market performance was observed on account of CFO and PAT and an adverse effect for ROE, in the year 2014. The year 2015 coefficient accounted for as 0.156, -0.428, and 0.626, for ROE, CFO, and PAT individually with an estimation of steady 2.893. A positive effect on securities exchange execution was seen on account of ROE and PAT, and a negative impact for CFO was likewise recorded in 2014. From the above examination, plainly during the pre-IFRS period, budgetary factors, arranged by utilizing IGAAP, a variable of PAT demonstrated a critical positive effect on the securities exchange execution.

TABLE 5 Result of regression analysis of sample variables for the period of 2012-2020

Year	Constant	ROE	CFO	PAT	AdjR2	F-Stat	P-Value
Pre IFRS period (2012-2015)							
2013	6.857	-1.957	-0.625	0.526	0.664	1.687	0.488
2014	2.990	-0.208	0.521	0.461	0.624	3.912	0.704
2015	2.893	0.156	-0.428	0.626	0.864	3.796	0.075
Post IFRS period (2016-2020)							
2016	2.709	0.256	0.479	0.097	0.164	0.662	0.696
2017	4.814	-0.152	1.137	1.117	0.477	0.434	0.068
2018	6.376	-0.272	-0.697	0.487	0.882	1.358	0.337
2019	7.456	0.756	1.768	0.577	0.989	3.976	0.987

Source: Compiled from Prowess Database and computed using SPSS

Like the post-IFRS time of 2016, the coefficient values were accounted for as 0.152, 0.479, and 0.097, for ROE, CFO, and PAT separately, with an estimation of consistency at 2.709. A positive effect on stock market performance was evident on account of the apparent multitude of three factors like ROE, CFO, and PAT, during the year 2016. Correspondingly, for the year 2017, the coefficient values were accounted for as -0.152, 1.137, and 1.117 for ROE, CFO, and PAT individually with an estimation of consistency at 4.814. It is apparent that the CFO and PAT had made substantial positive effects, and ROE had an adverse impact on the stock exhibition of sample firms. In 2018, the coefficient values were recorded as -0.272, -0.697, and 0.477, for ROE, CFO, and PAT individually, with an estimation of steady at 6.376. The factors, for example, CFO and PAT, indicated a nearly certain effect, and one variable, ROE, demonstrated a negative impact on the stock market performance of the sample factors. Consequently, it is perceived that PAT left essentially certain effects on the securities exchange execution of the sample organizations. Subsequently, the null hypothesis (H1) stating there lies no connection between the money related result of uniting to IFRS by the sample gallery organizations over its securities exchange execution was rejected.

It should be noted that F-statistic, p-value, R-squared, and Adjusted R-squared were

utilized to test the fitness of the regression model. In the year 2013, the Adjusted R-squared was 0.164 and the F value was 1.687, from which it is perceived that only 16.4% of the variance in P/B ratio could be estimated through this model in 2013. For the year 2014, the Adjusted R-squared was 0.434, and F esteem was 3.912, which inferred that 42.4% variety in P/B ratio could be estimated by utilizing this model in 2014. In the year 2015, the Adjusted R-squared was 0.664, and the F value was 3.796, which could clarify 56.4% of the variance in the P/B ratio. During the post-IFRS period in 2016, the Adjusted R-squared was 0.164, and the F value was 0.662, which implied that only 14.4% of the variance in P/B proportion utilized this model in 2016. In 2017, the Adjusted R-squared was at 0.477, and the F value was 3.424 which showed that 43.7% of the variance in P/B proportion could be clarified through this model for 2017. In 2018 the Adjusted R-squared was 0.882, and the F value was 1.358. It was discovered that in 2018, 81.2% variety in P/B proportion was estimated by this model. This affirmed that the model was acceptable, and the factors were freely appropriated.

Conclusion

This study examined the factors of financial statements, arranged by utilizing GAAP and IFRS, and attempted to discover relations with the securities market performance of the

sample Jewellery organizations recorded in S&P BSE100. Four primary factors, to gauge the financial effect of IFRS on the stock exchange execution of the sample Jewellery organizations were used. There were four factors - Price to Book Ratio (securities exchange variable), Return on Equity, Profit after Tax and Cash flow from Operations (three monetary factors), utilized by this examination. The post effects of this examination showed that the financial effect after converging with IFRS, significantly Profit after Tax, was fundamentally indicative of the stock returns in Indian [13]. The results of this examination are unique, concerning numerous global investigations, although they looked predictable[14].

There were some limitations. The investigation focused only on jewelry organizations, and consequently, it is tough. Besides, this examination did not use estimated accrual methodology to look at the effect of financial statements or reports, which demanded a change in research configuration, as utilized in the current investigation. Some different proposals for additional exploration fit in this area. The present work could have reached out by fusing accounting gatherings and the nature of accounting divulgence [15]. In conclusion, it is recommended that the examination configuration, utilizing alternative dependent variables, e.g., stock returns, Tobin q, and panel data regression, could be used, contrasting the outcomes and OLS regression [16].

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Conflicts of interest

We declare that there are no conflicts of interest regarding the publication of this manuscript.

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