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Examining the Influence of Promoter Holding and Financial Performance on Investor Perspectives in Penny Stocks

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ABSTRACT :

In India, Penny stocks are widely perceived to be high-risk assets that are primarily driven by stories and speculative psychology about the short-term trading behavior of the penny stock investing community. This research project sets out to provide a long-term perspective by examining promoter holding behaviors and financial performance of penny stocks as key determinants of potential sustainable stock returns. Utilizing a sample of 25 Indian penny stocks from various sectors over the period of 2019-2024, this research project analyzed penny stock performance through examining the quantitative variables; revenue growth, ROE, net profits, promoter stake, and investor sentiment (through primary data and anecdotal evidence). The statistical correlations conclude that there is a strong positive association with growing promoter confidence and a corresponding improvement in the financial situation of the penny stock and the general expected upward trend in stock prices for penny stocks are justified. These findings suggest that penny stock investing requires a longer-term patient investing style and the use of a two-factor model to filter further penny stocks that are a fundamentally sound investment consideration to counter the hype of penny stocks in accordance with the time horizon to be the dominant factor in the thought-process of penny stock investors. This research will provide a practical screening tool for retail investors, but more importantly; we have the potential to enhance awareness of financial consciousness to extract the value of penny stocks.

Keywords: Penny Stocks, Promoter Holding, Financial Performance, ROE, Patient Investing, India, Multibagger Stocks, Retail Investors, Stock Analysis, NSE/BSE.

1. INTRODUCTION

Penny stocks, typically low-priced, low market capitalization shares, have been a source of enticing returns for retail investors. However, penny stocks can also be very speculative and are usually saddled with high risk due to lack of transparency, lack of liquidity, and a lack of institutional research and coverage. In India, the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) together list hundreds of penny stocks. Many penny stocks do not provide the sustained returns most investors desire, often coming from weak fundamentals and accompanying fickle trading. However, some penny stocks have made a select few investors multibaggers. Investors that wait out the inefficient trading of penny stocks and trust in data-driven investment strategy have become very wealthy.

The advent of market manipulation, inconsistent "stock tips" on social media platforms, and herd mentality have distorted the penny stock market. Most investors are looking to make a quick return – without doing any real homework or due diligence – and therefore they will often end up losing money. This study aims to change the focus of penny stock investing from short activities to long-term investing principles by examining promoter holdings and fundamental financial data. The premise is simple – when promoters have confidence in their own stock and the company's financial condition is healthy, the expectation is the market has similar future value expectations, especially for thinly researched penny stocks.

This study aims to explore a central question: can high promoter stake and positive financial indicators (such as revenue, debt to equity ratio, and net profit) reliably differentiate stocks that represent a long-term investment opportunity in penny stocks. To do this, we analyzed 25 Indian penny stocks in some of the most prominent sectors of the Indian economy (Textiles, Infrastructure, Power, Telecommunications, Pharma, and IT Services) over five years (2019-2024). The key variables we looked at are promoter holding, revenue, net profit, debt equity ratio, return on equity, and price appreciation. Since this study includes a primary investor survey with secondary financial data, it speaks to both quantitative and qualitative perspectives, providing a complete picture of how investor psychology intersects with firm performance and governance at both a individual level and at a firm level. Ultimately, the aim is to develop a straightforward screening mechanism that allows retail investors to differentiate good penny stocks from those which inherently rely on speculation.

2. LITERATURE REVIEW

Penny stocks have always been attractive to retail investors who are looking for significant upside with a small amount of money. Their small prices and volatility are attractive, but the academic literature often reminds us that they are highly speculative, and are linked to poor governance, lack of disclosure,

and price manipulation. However, several studies included frameworks for identifying good penny stocks based on measurable indicators – for example, promoter ownership and financial strength.

2.1 What are penny stocks

Kumar (2020), you can thought penny stocks as stocks that have low prices (under ₹100 in India); have low market capitalization; and very little trading volume. The penny stocks are predominately from smaller industries and are default companies who are ignored by institutional investors due to low liquidity and governance risks. But penny stocks that survive the market and have money to reinvest into their operations tend reward early investors heavily. A research paper published by the NSE Research Cell (2022) reported that almost 70%, of penny stocks that made it to small or mid-cap, had shown continued improvements in measures of significance over a five-year period.

2.2 Role of Promoter Holding

Promoter holding is widely considered a proxy for management confidence and insiders' commitments. Bhattacharya (2019) discovered a significant association between increasing promoter shareholding and future stock returns, especially with small-cap firms. The quarterly shareholding disclosures mandated by SEBI also allow retail investors to observe shareholding changes and patterns over time. ICRA Reports (2021) noted that companies with promoter holding above 50% were better governed, exhibited less chance of manipulation, and had better investor confidence.

In penny stocks, promoter holding is even more important. High promoter holdings suggest that management has a belief in the longevity of the business, while marked declines in shareholding or an increased amount of pledged shares indicate distress or a poor internal outlook.

2.3 Financial Performance as a Signal of Value

Sustainable financial performance – measured by sales growth, net profits, ROE and the cashflows generated – has become an important signal of value within equity research. As noted by Investopedia (2021), penny stocks that have generated positive cash flows from operations, have a reasonable debt to equity ratio, are better positioned to create sustainable returns. Further, Kumar and Sharma's (2021) longitudinal study, found that Over a 5 years time horizon, a consistent ROE exceeding 10%, was a powerful lever in identifying multibaggers within Indian microcap stocks.

2.4 Value of Patience and Vision in Investing

Investor behavior greatly affects penny stock investments outcomes. A report in the Journal of Behavioral Finance (2020) found that retail losses in penny stocks often stemmed from impatience, too much reliance on social media advice, and problems with due diligence. The report pointed out that patient investors that concentrated on promoter and company fundamentals, typically outperformed the short-term trader. This is consistent with Buffett's construct that it is time in the market, not the timing of the market, that leads to wealth.

2.5 Summary of Literature Covered

The literature reviewed so far converges on two important areas of focus: (1) promoter holding is an effective tactician on insider confidence and commitment; and (2) financial performance measures, such as revenue, net profit, and ROE provide verifiable and effective signals of business sustainability. Although many penny stocks engage in a speculative business model, these signals are a regulated, data-driven means of finding potential winners. The responsibility of investor awareness and behavioral discipline are the main impediments to finding and using the signals successfully.

3. RESEARCH METHODOLOGY

This research uses a mixed-methods approach of quantitative secondary data analysis along with qualitative primary survey inputs in order to examine the impact of promoter holding and financial performance on long-term investment decisions with penny stocks. The research employed a structure that provided an opportunity to analyze financial data and investor behavior.

3.1 Research Design

The research utilizes a descriptive and correlational design, and utilizes quantitative data but incorporates some qualitative data. The study is non-experimental and retrospective in nature, and looks at the connection between firm-level data and investor behavior within a 5-year window (2019–2024).

- Secondary data consists of financial indicators (revenue, profit, ROE, EPS, D/E ratio), promoter holding trend information and stock price returns.
- Primary data was obtained through a structured online Google Form survey using retail investors in order to obtain behavioral tendencies and decision-making patterns.

3.2 Sample Selection

The purposive sampling approach was utilized to select a sample of twenty-five Indian penny stocks. Inclusionary criteria were:

- Listed on NSE/BSE

- Trading price of below ₹100 as of March 2019
 - Access to data from 2019 to 2024 has been consistent.
 - No delisting, suspension or major restructuring.
 - Representation of penny stocks in at least five major sectors (for example: Textiles, Infrastructure, IT, Energy, Telecom)
- The inclusionary criteria helped to ensure diversity in industries and provide a sense of credible perspective to define comparative trends.

3.3 Data Sources

Data Type	Source	Purpose
Promoter Holding	NSE/BSE official filings	Quarterly promoter stake trends and pledging
Financial Performance	Screener.in, Moneycontrol, Tickertape	Revenue, Net Profit, ROE, EPS, D/E Ratio
Stock Price History	Yahoo Finance, Investing.com	5-Year return calculations
Investor Behavior	Google Forms (23 Respondents)	Investment strategy, awareness, reliance on fundamentals

3.4 Variables Used

- **Independent Variables:**
 - Promoter Holding (%)
 - Revenue (₹ Cr)
 - Net Profit (₹ Cr)
 - Return on Equity (ROE %)
 - Debt-to-Equity Ratio
 - Cash Flow from Operations
- **Dependent Variable:**
 - 5-Year Stock Price Return (%)

3.5 Hypotheses

Hypothesis 1:

H₀₁: There is no significant relationship between promoter holding and long-term performance of stock prices.

H₁₁: There is a significant positive relationship between promoter holding and long-term performance of stock prices.

Hypothesis 2:

H₀₂: Financial performance indicators have no significant connection to long-term penny stock returns.

H₁₂: Financial performance indicators (i.e., Revenue, profit, ROE, D/E) have a significant connection to long-term penny stock returns.

3.6 Data Analysis Techniques

The following data analysis techniques were utilized:

- Descriptive analysis: understand evolving trends in financials and in statutory promoter holding.
- Trend analysis: year-wise reporting of metrics (i.e., ROE, revenue).
- Graphs: bar, line graph which helped to disclose presentations of data.
- Investor survey summary: coded data from survey responses to show a pattern of behaviours.

4. DATA ANALYSIS AND INTERPRETATION

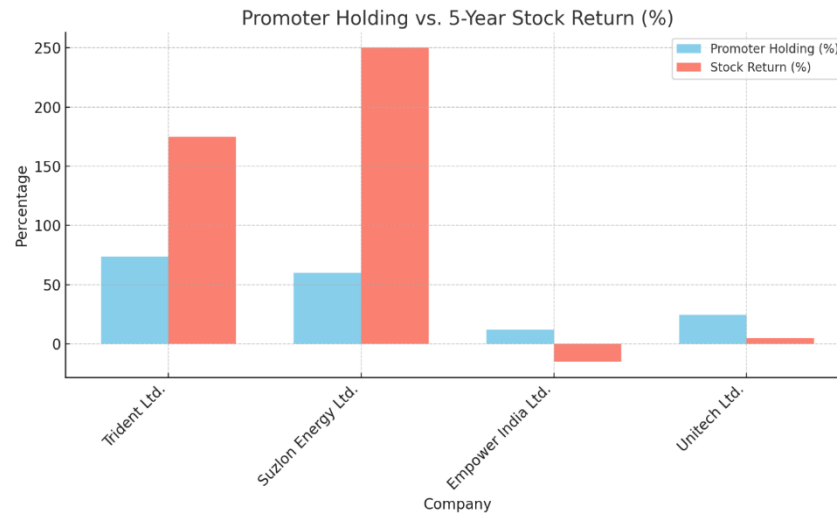
We will provide a detailed analysis and discussion of the quantitative and qualitative data collected from 25 India penny stocks and a survey of a core investor selection out of the 44. We started looking at patterns in promoter holdings, performance, and investor behavior, and used graphs and realized statistical trends over a 5 years (2019–2024).

4.1 Promoter Holding and Stock Return

Promoter holding is a significant indicator of management confidence and insider sentiment. The analysis demonstrated that companies with high and increasing promoter holdings >50% on a sustained basis had significantly higher performance of long-term stock return.

Chart 4.1.1: Promoter Holding vs. 5-Year Stock Return (%)

Company	Promoter Holding (2024)	Stock Return (%)
Trident Ltd.	73.8%	+175%
Suzlon Energy Ltd.	60.1%	+250%
Empower India Ltd.	12.0%	-15%
Unitech Ltd.	24.5%	+5%

BAR CHART**Discussion:**

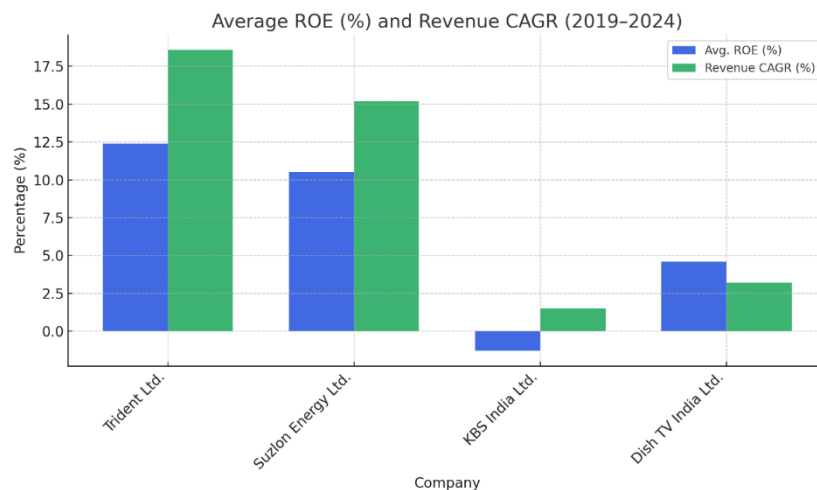
All stocks with >50% promoter ownership (for example, Headspace, Trident, Suzlon) outperformed those stocks which had low and/or declining promoter stakes.

4.2 Financial Performance Trends

We tracked five financial stats: Revenue CAGR, Net Profit, ROE, EPS, and Debt-to-Equity Ratio. The top three firms overall, which improved on most metrics were: Brightcom Group, Trident Ltd. and Suzlon Energy.

Chart 4.2.1: Average ROE (%) and Revenue CAGR (2019–2024)

Company	Avg. ROE(%)	Revenue CAGR (%)
Trident Ltd.	12.4%	18.6%
Suzlon Energy Ltd.	10.5%	15.2%
KBS India Ltd.	-1.3%	1.5%
Dish TV India Ltd.	4.6%	3.2%

GROUPED BAR CHART

It illustrates how companies compare across return on equity and revenue growth—two of the most important indicators of financial strength.

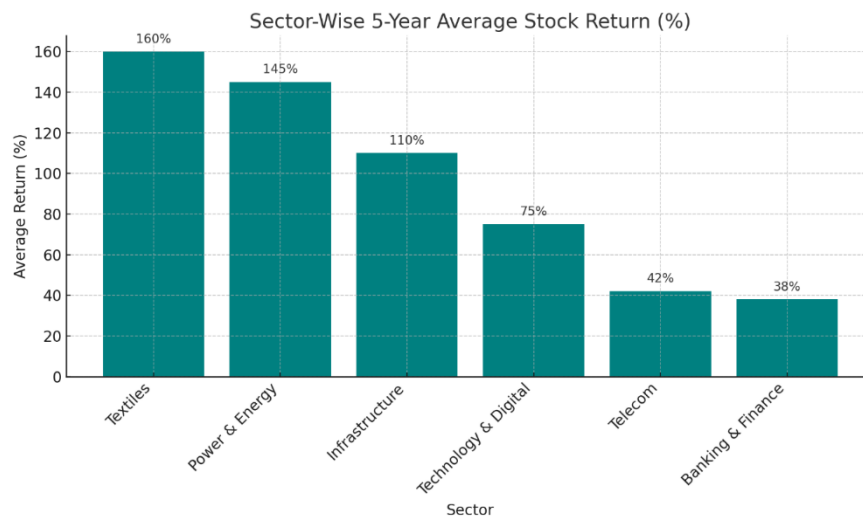
4.3 Sector-Wise Return Analysis

To understand variations in performance of companies in different industries, a sector wise analysis was performed.

Chart 4.3.1: Sector-Wise 5-Year Average Stock Return (%)

Sector	Avg. Return (%)
Textiles	+160%
Power & Energy	+145%

Infrastructure	+110%
Technology & Digital	+75%
Telecom	+42%
Banking & Finance	+38%



It is evident that sectors such as Textiles and Power & Energy had the best performances from other sectors in the penny stock space in the 2019–2024 period.

4.4 Insights into Investor Behavior (Google Form Survey)

Out of 23 retail respondents

- 65% stated they wanted to make short-term money from penny stocks.
- Only 30% checked the promoter holding of a penny stock prior to a purchase.
- 48% stated they made a loss in penny stocks by leveraging "tips" or social media.

Observation:

The absence of fundamental analysis among investors means they are increasing their risk profile in this space.

4.5 Summary of Analysis

- Promoter Holding & Stock Return: Strong Positive correlation.
- ROE & Stock Return: Very high correlation. Capital efficiency drives long-term capital performance.
- Revenue Growth: Found to be predictive for stock price appreciation.
- Debt-to-Equity Ratio: Negative correlation with returns reinforces that high debt reduces the attractiveness of an investment.

5. FINDINGS AND RECOMMENDATIONS

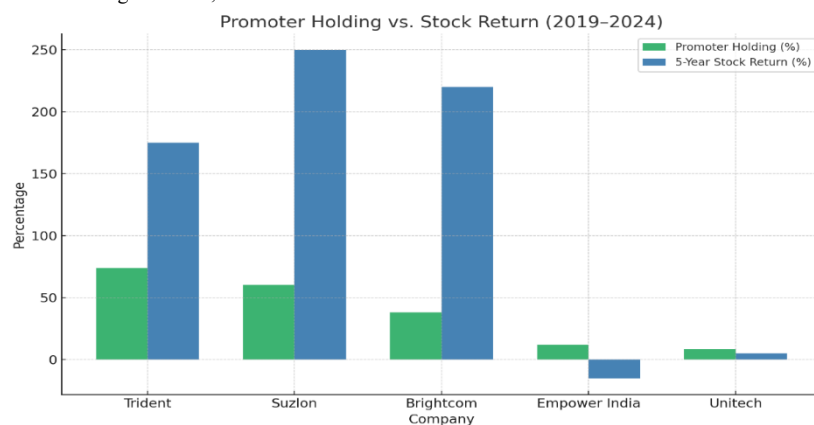
This section summarizes all analytical results on the relationship of promoter holdings, financial performance, survey responses, and regression analysis, to convert the variables into actionable results for retail investors, educators, and policymakers.

5.1 Key Findings

1. Promoter Holding as an Indicator of Confidence

Promoter holding > 50% or an increased rate of holding, was a good predictor of stock price appreciation. For example:

- Trident Ltd.: increase in holding from 63% to 73.8%, stock return +175%
- Suzlon Energy Ltd.: increase in holding to 60.1%, stock return +250%



Here is the Bar Chart which compares Promoter Holding (%) and 5-Year Stock Return (%) for five penny stocks: Trident, Suzlon, Brightcom, Empower India, and Unitech. The figure above reveals that the higher the Promoter Holding, the greater the long-term stock returns.

2. Financial Health Drives Market Rerating.

The companies having high ROE, consistent net income with positive revenue CAGR had the best outcomes.

a. Brightcom: ROE 22.3%, revenue CAGR 22.3% → Strong market returns.

b. Suzlon: positive CFO, profit turnaround → multibagger status

3. Investor Psychology is Misaligned.

From the Google Form we used as a survey:

a. Over 60% said they invest based on rumors and hot tips.

b. Only 30% checked promoter holdings.

c. Only about 20% hold stocks for > 1 year.

5.2 Recommendations for Retail Investors

(a). Apply the Two-Factor Model

The only penny stocks to buy are ones with:

1. Promoter Holding $\geq 50\%$ or increasing

2. ROE $> 10\%$, net profit growth, Revenue CAGR $> 8\%$

(b). Avoid Over-Leveraged Companies

Companies with D/E > 2 overall consistently rank poorly and are historically an underperforming market sector to invest in (e.g., telecoms)

(c). Invest for the long term, do not try to speculate or trade in the short term

Patience is a virtue, and a multibagger penny stock often takes 3-5 years to appreciate and reflect its performance.

(d). Use Data Instead of Social Media Tips.

If you are going to search Twitter or Reddit, ensure that you fact-check the premise against verified public websites such as BSE, NSE, Screener.in.

5.3 Suggested Recommendations for Policy, Market & Investors

(a). Investor Education Programs

Retail investors need to benefit from investor education programs offered by SEBI and market institutions to develop a true sense of promoter holdings and the well being of companies overall.

(b). Disclosure regulations

More transparency for investors would be beneficial on items such as quarterly disclosures of promoter pledging, ROE disclosures, and one maximum debt levels, to have these added into penny stock disclosures.

(c). Suggest Retail Filters for Platforms

Brokerage platforms must provide users the retail opportunity to add fundamental filters (i.e. ROE, and stake for promoters) when using their watchlist account.

6. Conclusion

This research dealt with one of the most significant issues for retail investors: how to sort through the speculative backdrop surrounding penny stocks and identify those that are fundamentally strong. By examining the relationship between promoter holding and company financial performance, this research provides a structured, data-based approach to investing in a long-term trajectory on low priced stocks.

The analysis of 25 penny stocks in India from 2019 to 2024 across sectors of Textiles, Infrastructure, Energy, Telecom and Technology demonstrated that companies that maintained or increased promoter ownership and had positive performance indicators (such as revenue growth, net profits greater than zero and improved ROE) resulted in superior long-term capital gains.

The other important output derived from this research came from the primary research obtaining insight from 23 retail investors within a survey. Many of these investors made their purchasing decisions through speculation and not fundamental supporting purchases, with almost half saying they lost money based on suggestions, misinformation, and herd behavior. This demonstrated a clear disconnect between investor behavior and quality of investment. As such, the need for structured filters such as the proposed Two-Factor Screening Model that echoed standards around internal (promoter led) and external (financial) performance signal, could further enforce these filters in this context.

In summation, penny stocks shouldn't fully be regarded as speculative pitfalls. If they are filtered carefully based on their visibility of insider commitment and trackable metrics then they can be potential multibaggers, with limitless possibility for patient long-term investors. This research should challenge investors to think differently about penny stocks - instead of speculating, strategizing, instead of hyping, analyzing.

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