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"The Study on How to Identify Multibagger Stocks in FMCG and Pharmaceutical Sector"

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ABSTRACT
The search for multi-bagger stocks, which can deliver returns multiple times over their initial investment, is a key objective for investors aiming for significant portfolio growth. Identifying such stocks within the fast-moving consumer goods (FMCG) and pharmaceutical sectors presents unique challenges and opportunities due to the distinct characteristics of these industries. The FMCG sector, characterized by steady demand and a large, diverse consumer base, offers resilience and consistent growth. Conversely, the pharmaceutical sector thrives on innovation, regulatory approval, and healthcare advancements, offering significant potential but also higher risks.

This research paper aims to provide a framework for identifying potential multi-bagger stocks within the FMCG and pharmaceutical sectors. It explores both quantitative and qualitative factors, including financial performance, market positioning, competitive advantage, innovation, and macroeconomic trends, to identify companies with the greatest potential for outsized growth.

The study emphasizes the importance of understanding sector-specific drivers, such as changing consumer behavior in FMCG and breakthroughs in drug development within pharmaceuticals.

By analyzing case studies of companies that have transformed into multi-bagger stocks, the paper offers insights into the strategies and characteristics that make these companies successful.

Additionally, it provides a comprehensive approach for investors to assess risk, evaluate growth potential, and make informed investment decisions. Ultimately, this research seeks to equip investors with the tools to identify and capitalize on high-growth opportunities within these two critical sectors, maximizing returns while managing inherent risks.

I. INTRODUCTION

The concept of a "multi-bagger" stock refers to a stock that has the potential to deliver returns that multiply several times over its initial value. Investors often seek such stocks to significantly grow their wealth and identifying them is considered an art as well as a science in the world of stock market analysis.

In the context of the fast-moving consumer goods (FMCG) and pharmaceutical sectors, the search for multi-bagger stocks is of paramount interest due to their inherent growth potential, driven by consumer demand and health-related advancements. FMCG companies manufacture products that are consumed on a regular basis, such as food, beverages, toiletries, and household goods.

This research paper aims to explore methods for identifying potential multi-bagger stocks within the FMCG and pharmaceutical sectors. By examining the key drivers of growth and the risk factors that affect these industries, the study seeks to provide valuable insights for investors looking to maximize returns. Furthermore, it will delve into both quantitative and qualitative factors, such as financial performance, competitive advantage, and sector-specific trends, to create a framework for evaluating and identifying stocks with high-growth potential in these two critical sectors.

This sector is typically characterized by steady demand, large market size, and a strong consumer base, making it a resilient area for long-term investments. On the other hand, the pharmaceutical sector involves the development and production of medications and health-related products. The industry thrives on innovation, regulatory approvals, and market needs for treatments and cures, especially in emerging economies and aging populations.

Both sectors, despite their differences, share common traits such as long-term growth potential, consistent demand, and evolving market trends. However, not all companies within these sectors are equal, and some possess qualities that set them apart as potential multi-bagger candidates. Identifying such companies requires a detailed and multidimensional approach that considers financial metrics, market positioning, innovation, leadership, and macroeconomic factors.

BACKGROUND OF THE STUDY

India's Fast-Moving Consumer Goods (FMCG) and Pharmaceutical sectors have played a crucial role in shaping the national economy, significantly contributing to the country's GDP. The FMCG sector, characterized by its vast product range and strong consumer demand, stands out as one of the fastest-growing segments in India.

PROBLEM STATEMENT

The ability to identify multibagger stocks—those that can deliver returns multiple times their initial value—has become a focal point for investors seeking substantial long-term gains. Despite the vast opportunities within India's Fast-Moving Consumer Goods (FMCG) and pharmaceutical sectors, many investors struggle to pinpoint which stocks are poised for exceptional growth. This challenge is compounded by the inherent volatility of the stock market, influenced by various external factors such as economic downturns, regulatory changes, and competitive pressures.

OBJECTIVES OF THE STUDY

The objectives of this study are as follows:

1. To identify and analyse the internal financial metrics—such as sales growth, net profit margins, net profit growth, return on assets, return on equity —that have historically contributed to multi-bagger performance in the Fast-Moving Consumer Goods (FMCG) and pharmaceutical sectors.
2. To assess the correlation between these internal factors and long-term stock price appreciation. This objective aims to find correlation between how each metric relates to stock performance, thereby identifying which factors significantly influence the likelihood of a stock becoming a multi-bagger.
3. To offer actionable recommendations for investors looking to identify multi-bagger stocks in the FMCG and Pharmaceutical sectors, drawing on empirical evidence and statistical analysis.

HYPOTHESIS

Based on existing literature and past research, the following hypotheses have been formulated:

Alternative hypothesis (H1) = There is a statistically significant relationship between key financial metrics— sales growth, net profit margins, net profit growth, return on assets, return on equity and the stock price performance of companies in the FMCG and Pharmaceutical sectors.

Null Hypothesis (H_0): There is no statistically significant relationship between key financial metrics—such sales growth, net profit margins, net profit growth, return on assets, return on equity and the stock price performance of companies in the FMCG and Pharmaceutical sectors.

II. LITERATURE REVIEW

- Heikal, M., Khaddafi, M., & Ummah, A. (2014). "Analyzing Financial Ratios and Their Influence on Profit Growth in Indonesia's Automotive Sector." This study examines how key financial ratios—Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Debt-to-Equity Ratio (DER), and Current Ratio (CR)—affect profit growth in the automotive industry listed on the Indonesia Stock Exchange. Findings indicate that these financial metrics significantly influence profitability and overall financial health. DOI:10.6007/IJARBSS/v4-i12/1331
- Nguyen, T. N. L., & Nguyen, V. C. (2020). "Determinants of Profitability Among Listed Enterprises in Vietnam." This research explores the factors influencing profitability for firms listed on the Vietnamese stock exchange, focusing on firm size, leverage, and liquidity. The study finds that financial structure and operational efficiency play a crucial role in determining corporate profitability. DOI: 10.13106/jafeb.2020.vol7.no1.47
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- Nugraha, N. M., Yahya, A., Nariswari, T. N., Salsabila, F., &Octaviantika, I. Y. (2021). "Banking Sector Performance: The Impact of Loan-to-Deposit Ratios and Non-Performing Loans in Indonesia." This study analyzes how non-performing loans, loan-to-deposit ratios, and managerial diversity influence the financial performance of Indonesian banks. Findings indicate that well-managed credit risk improves overall profitability. DOI:10.48047/rigeo.11.3.130
- Susanti, N., &Nugraha, D. N. S. (2019). "Stock Return Evaluation in LQ45-Listed Companies (2012-2016)." This research compares different methods used to assess stock returns in companies listed under the LQ45 index in Indonesia. The study provides insights into effective evaluation techniques for investment decision-making.
- Hertina, D., & Saudi, M. H. M. (2019). "Impact of Profitability Ratios on Stock Returns." This paper investigates the effects of financial ratios such as ROA, ROE, Debt-to-Equity Ratio (DER), and Earnings Per Share (EPS) on stock return performance. The study concludes that these indicators serve as crucial predictors of stock price movements.
- Purnamasari, D. (2015). "The Influence of Financial Performance Metrics on Stock Price Volatility." This research evaluates the impact of ROA, ROE, and Economic Value Added (EVA) on stock price fluctuations, ultimately shaping Earnings Per Share (EPS) trends.
- Mogonta, K., &Pandowo, M. (2016). "The Role of ROA, ROE, and EPS in Market Share Price Valuation for Mining Companies." This study examines how key profitability indicators affect market valuation among mining firms listed on the LQ-45 index. Findings suggest a strong positive correlation between financial performance and stock price appreciation.
- Jariwala, P. T. (2020). "Earnings Per Share and Dividend Policy in the Pharmaceutical Industry." This study explores how EPS, Dividend Per Share (DPS), and Book Value Per Share (BVPS) influence stock prices within the pharmaceutical sector, highlighting their role in long-term value creation.
- Sukmawati, F. (2016). "The Significance of Return on Equity in the Cement Industry." This research assesses the impact of ROE on financial performance and stock price movement in the cement industry, concluding that higher ROE leads to increased investor confidence and market stability.
- Gharaibeh, A. T. (2022). "The Relationship Between EPS and Market Price in the Banking Sector." This study examines how EPS correlates with stock prices in the banking industry, demonstrating that higher EPS is generally associated with better stock performance and investor interest.
- Ersoy Ersoy and Ersoy Ersoy (2012) examined the impact of financial ratios on firm value by analyzing firms in the Food-Drink-Tobacco and Basic Metal Industry sectors listed on the Istanbul Stock Exchange (ISE) 100 index between 2002 and 2009. Utilizing panel data analysis, the study found that certain financial ratios significantly influence firm value, highlighting the importance of financial analysis in corporate valuation.

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- Agarwal, M. (2024). "Does Investment in Defensive Stocks Act as a Buffer during Market Downturns?"This study analyzes the performance of defensive stocks during market downturns in the Indian stock market from January 2000 to December 2023, focusing on FMCG (HUL, ITC, Britannia) and Pharma (Sun Pharmaceuticals, Dr. Reddy's, Cipla) sectors. Key metrics assessed include stock returns, correlation with market returns, beta, compound annual growth rate (CAGR), and dividend yield. Findings reveal that these stocks provide protection against downturns and exhibit long-term stability, making them valuable for portfolio diversification.

III. RESEARCH METHODOLOGY

SECTION	DETAILS
TITLE	"The Study on How to Identify Multibagger Stocks in FMCG and Pharmaceutical Sector**"**
OBJECTIVE	To identify and analyse the internal financial metrics—such as sales growth, net profit margins, net profit growth, return on assets, return on equity that have historically contributed to multi-bagger performance in the Fast-Moving Consumer Goods (FMCG) and Pharmaceutical sectors.
HYPOTHESIS	**Alternative hypothesis (H1)** = There is a statistically significant relationship between key financial metrics—such as sales growth, net profit margins, net profit growth, return on assets, return on equity and the stock price performance of companies in the FMCG and Pharmaceutical sectors. **Null Hypothesis (H_0):** There is no statistically significant relationship between key financial metrics—such as sales growth, net profit margins, net profit growth, return on assets, return on equity and the stock price performance of companies in the FMCG and Pharmaceutical sectors.
STUDYDESIGN	Exploratory andDescriptiveresearchdesign
DATACOLLECTION	**Secondary data collection** • **Stock exchanges** (NSE, BSE) for historical stock prices and company performance data. • **Corporate annual reports** and filings for financial information, earnings, dividend yields, and cash flows. • **Financial databases** such as Screener.in and moneycontrol for accurate and up-to-date financial metrics. • **Research articles and journals** from databases like JSTOR, ScienceDirect, and Google Scholar to provide academic context and support.
SOURCESOFDATA	Secondarydata
POPULATION	The population for this study consists of all publicly listed companies within the Fast-Moving Consumer Goods (FMCG) and Pharmaceutical sectors in India. These sectors were chosen due to their historical stability during economic fluctuations and their strong potential for long-term stock appreciation. The population includes companies listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), which are the two primary stock exchanges in India. By focusing on publicly listed firms, the study ensures access to reliable financial data and market performance metrics, essential for assessing multibagger potential. This

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	population is significant as it reflects a diverse array of businesses operating within industries that are vital to the Indian economy.
SAMPLING METHOD	The study employs a purposive sampling method to identify companies that are likely to exhibit multibagger potential. Purposive sampling is particularly beneficial in this context as it allows for the selection of specific companies based on predetermined criteria that align with the research objectives. The following criteria guide the selection process: • **Public Listing**: Only companies that are publicly listed on the NSE or BSE are considered, ensuring transparency and the availability of financial data. • **Consistent Financial Performance**: Selected companies must demonstrate a stable financial performance record for a minimum of 8 year. This criterion helps ensure that only companies with proven resilience and sustainable growth are included in the sample. • **Sector Inclusion**: Companies must operate within the FMCG or Pharmaceutical sectors, which are known for their consumer demand stability and growth potential. • **High Growth Potential**: Companies should exhibit significant growth potential, as evidenced by metrics such as revenue growth, profit margins, and market share expansion
LIMITATIONS	➢ The study does not incorporate key macroeconomic and industry-specific variables such as inflation, interest rates, exchange rates, and political stability. These factors significantly influence stock performance but are not accounted for in the analysis. ➢ The research focuses solely on financial ratios and internal fundamentals as investment criteria. It does not consider technical analysis, behavioral finance, or investor sentiment, all of which can impact stock price movements. ➢ Economic cycles, sectoral trends, and industry-wide risks are not assessed in this study. Broader economic indicators such as GDP growth, unemployment rates, and consumer spending are also excluded, limiting the study's applicability to different market conditions. ➢ Stock price movements can be influenced by multiple external variables, yet this study does not control for confounding factors. Market reactions to earnings announcements, global economic events, and media sentiment are not considered, which may affect the accuracy of the findings. ➢ The study relies on annual financial statements instead of real-time stock market data. This static approach may not fully capture short-term market fluctuations and investor reactions to financial disclosures.

IV. RESULTS AND DISCUSSION

FMCG Companies

Correlation coefficient of ratio and stock price performance in FMCG Company

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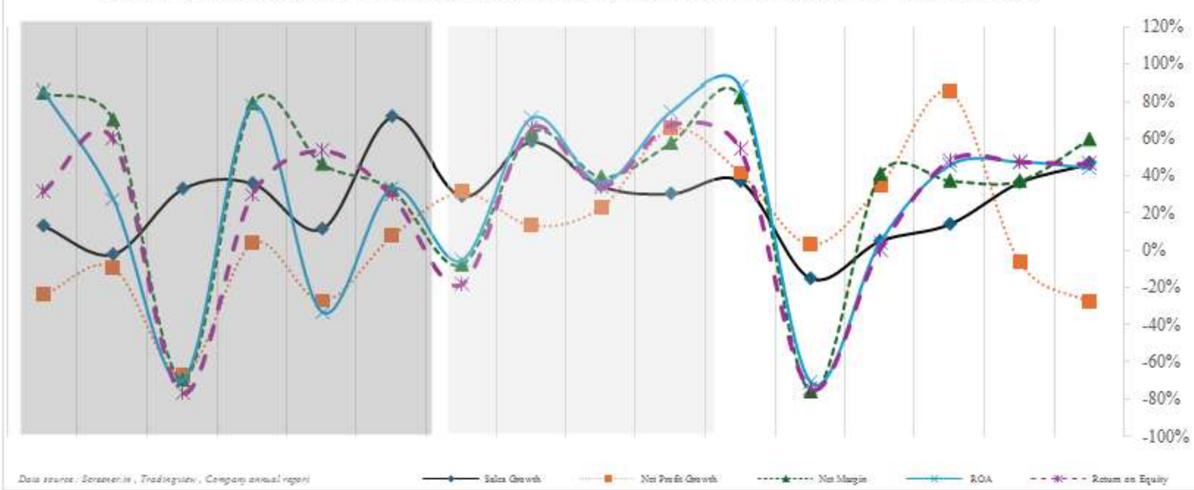
FIGURE 1.1: CORRELATION COEFFICIENT OF RATIO AND STOCK PRICE PERFORMANCE IN FMCG COMPANY



Company	Sales Growth	Net Profit Growth	Net Margin	ROA	Return on Equity	Size
VARUN BEVERAGES LTD	13%	-24%	85%	86%	31%	
BRITANNIA INDUSTRIES LTD	-2%	-9%	70%	28%	60%	
GODREJ CONSUMER PRODUCTS LTD	33%	-67%	-70%	-70%	-77%	
UNITED SPIRITS LTD	36%	4%	79%	78%	30%	
MARICO LTD	12%	-27%	47%	-33%	54%	
PATANJALI FOODS LTD	72%	8%	33%	34%	30%	Large-Cap
UNITED BREWERIES LTD	29%	32%	-8%	-5%	-19%	
GODFREY PHILLIPS INDIA LTD	58%	14%	64%	72%	66%	
EMAMI	35%	23%	40%	36%	34%	
JYOTILAB	31%	66%	58%	75%	67%	Mid-Cap
L T FOOD	37%	42%	82%	88%	55%	
ZYDUS WELLNESS LTD	-15%	3%	-76%	-71%	-74%	
AVANTI FEEDS LTD	5%	35%	41%	5%	0%	
KRBL LTD	14%	86%	38%	46%	48%	
TILAKNAGAR INDUSTRIES LTD	37%	-6%	38%	48%	48%	
ADF FOODS LTD	47%	-28%	60%	45%	46%	Small-Cap

INTERPRETATION

- In the large-cap segment in FMCG Sector, companies such as Varun Beverages Ltd, Britannia Industries Ltd, and United Spirits Ltd display moderate to strong positive correlations between Return on Equity (ROE) and stock price, indicating that investors reward companies that generate higher returns for shareholders. For example, Britannia Industries Ltd (ROE: 60%) and Varun

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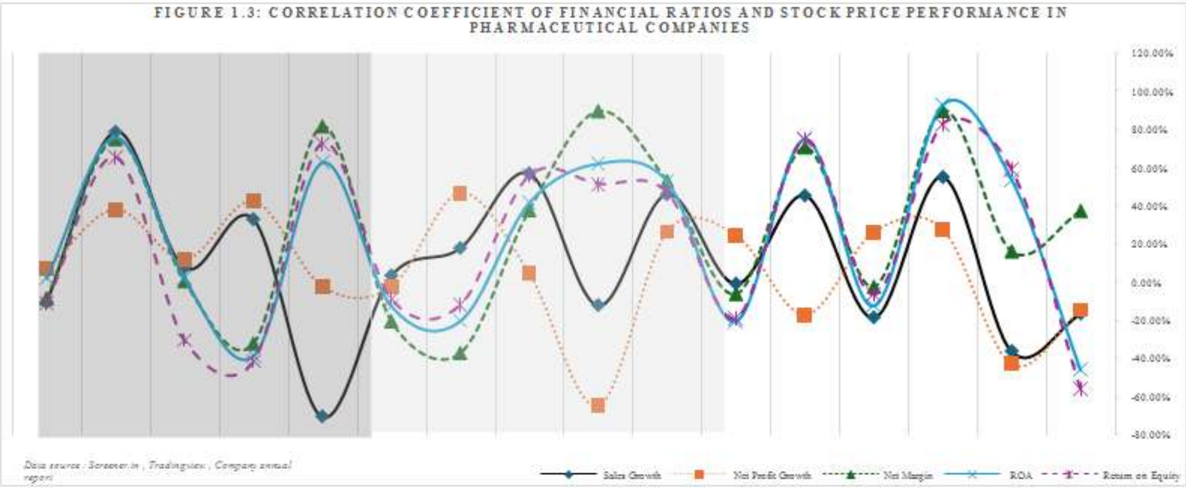
Beverages Ltd (ROE: 31%) both exhibit stock price stability, reflecting how ROE plays a crucial role in investor confidence. However, Godrej Consumer Products Ltd shows a highly negative correlation between Net Profit Growth (-67%) and stock price movement, likely due to profitability concerns overshadowing its sales growth (33%). United Spirits Ltd and Patanjali Foods Ltd demonstrate moderate positive correlations between Sales Growth and stock prices, indicating that investors view revenue expansion favorably. However, Marico Ltd shows a weaker correlation between profitability and stock price, suggesting that other market factors, such as competition or macroeconomic conditions, influence its valuation.

- Mid-cap stocks exhibit more varied and volatile correlation trends. United Breweries Ltd has a negative correlation between Net Margin (-8%) and stock price, implying that margin compression is penalized by the market. However, Jyoti Lab Ltd (ROE: 67%) and Godfrey Phillips India Ltd (ROE: 66%) show strong positive correlations with stock prices, reflecting investor preference for companies with consistent profit growth. Emami Ltd (ROE: 34%) also has a positive correlation with stock prices, suggesting that investors react favorably to stable earnings expansion. However, United Breweries Ltd's negative correlation between ROA (-5%) and stock price movement indicates that despite revenue growth (29%), inefficiencies in asset utilization are leading to investor skepticism. In contrast, LT Foods Ltd (ROE: 55%) exhibits a strong positive correlation between Net Margin (82%) and stock price, suggesting that markets value high-margin businesses.
- Small-cap stocks display the strongest and most extreme correlations between financial metrics and stock price movements. KRBL Ltd (ROE: 48%) and Tilaknagar Industries Ltd (ROE: 48%) show high positive correlations between Net Profit Growth and stock prices, suggesting that earnings growth is a major driver for investor confidence. However, Zydus Wellness Ltd has a strong negative correlation between profitability metrics and stock price (-74% ROE, -71% ROA, -76% Net Margin), indicating fundamental weakness affecting investor sentiment. ADF Foods Ltd (ROE: 46%) and Avanti Feeds Ltd (Net Profit Growth: 35%) also display moderate positive correlations with stock prices, highlighting the importance of profitability in driving valuation.

Pharmaceutical Companies
Correlation coefficient of Financial Ratios and Stock Price Performance in



Correlation coefficient	Sales Growth	Net Profit Growth	Net Margin	ROA	Return on Equity	Size
Torrent Pharma	-10.37%	7.03%	-8.49%	2.08%	-11.02%	
Dr Reddy's LAB	79.14%	38.32%	75.30%	76.03%	65.63%	
ZYDUS LIFESCI.	7.72%	11.72%	0.63%	1.92%	-30.31%	
AUROBINDO	33.19%	42.65%	-32.13%	-38.64%	-41.38%	Large-Cap

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PHARMA						
ABBOTT INDIA	-70.53%	-2.12%	82.04%	62.68%	72.85%	
BIOCON	3.53%	-2.48%	-20.40%	-12.54%	-8.64%	
AJANTA PHARMA	18.02%	46.90%	-37.19%	-20.42%	-11.79%	
JB CHEMICALS & PHARMA	57.28%	4.90%	37.97%	41.63%	55.92%	
PFIZER	-12.04%	-64.81%	90.02%	62.19%	51.59%	
NATCO PHARMA	46.34%	26.68%	53.27%	53.02%	47.19%	Mid-Cap
ALEMBIC PHARMA	-0.75%	24.81%	-6.11%	-20.43%	-18.70%	
ASTRAZENECA PHARMA	45.66%	-17.00%	70.98%	75.18%	74.72%	
JUBILANT PHARMO	-18.46%	26.39%	-2.34%	-12.46%	-6.41%	
NEULAND LABS	55.37%	27.80%	90.21%	93.07%	82.92%	
SANOFI INDIA	-36.23%	-42.89%	16.32%	53.72%	59.06%	Small-Cap
CAPLIN POINT LAB	-16.48%	-14.46%	37.55%	-46.10%	-56.03%	

INTERPRETATION

- Among the large-cap firms, Dr Reddy's LAB stands out with strong positive correlations in almost every metric—Sales Growth (79.14%), Net Profit Growth (38.32%), Net Margin (75.30%), ROA (76.03%), and ROE (65.63%)—implying that improvements in both revenue and profitability are closely tied to its share price. Torrent Pharma shows a mix of slight positives and negatives, with moderate negative correlations for Sales Growth (–10.37%) and ROE (–11.02%), but a small positive correlation in Net Profit Growth (7.03%), suggesting that profitability expansions have a mild favorable effect on its stock. ZYDUS LIFESCI. exhibits mostly low positive correlations (e.g., Sales Growth at 7.72% and ROA at 1.92%) but a notable negative for ROE (–30.31%), indicating that returns on equity might not be a major driver of its share price. A more extreme case is ABBOTT INDIA, which has a large negative correlation with Sales Growth (–70.53%) but highly positive ones for Net Margin (82.04%), ROA (62.68%), and ROE (72.85%), suggesting investors prioritize profitability and returns over simple top-line growth. Meanwhile, AUROBINDO PHARMA shows positive correlations for revenue and profit growth but negative correlations for margins and returns, pointing to a complex relationship where top-line expansion does not necessarily translate into stronger profitability metrics that the market values.
- Mid-cap companies generally exhibit more varied or even contradictory patterns. For instance, PFIZER shows a strong negative correlation with Net Profit Growth (–64.81%) but a robust positive correlation with Net Margin (90.02%) and ROE (51.59%), suggesting the market rewards margin stability over raw profit changes. BIOCON, by contrast, has modest or negative correlations across most factors, indicating limited stock price sensitivity to both sales expansion and profitability. NATCO PHARMA demonstrates a consistent positive relationship across nearly all metrics, from Sales Growth (46.34%) to ROE (47.19%), implying that improvements in growth and returns feed directly into investor optimism. JB CHEMICALS & PHARMA also exhibits favorable correlations—Sales Growth (57.28%), Net Margin (37.97%), and ROE (55.92%)—signaling that revenue gains and profitability are rewarded by higher share prices. ALEMBIC PHARMA presents a nuanced picture, showing negative correlations for Net Margin (–6.11%), ROA (–20.43%), and ROE (–18.70%), but a positive one for Net Profit Growth (24.81%), which may reflect investor expectations focused on bottom-line growth rather than efficiency metrics.
- Small-cap firms often experience the most dramatic correlation swings. NEULAND LABS stands out with strong positive correlations across all metrics—Sales Growth (55.37%), Net Profit Growth (27.80%), Net Margin (90.21%), ROA (93.07%), and ROE (82.92%)—indicating that improvements in any dimension of financial performance can significantly boost its stock. ASTRAZENECA PHARMA also shows largely positive relationships, especially in Net Margin (70.98%), ROA (75.18%), and ROE (74.72%), though Net Profit Growth (–17.00%) is negatively correlated, hinting that investors focus more on operational and return metrics than on raw profit expansion. SANOFI INDIA

has a negative correlation for Sales Growth (–36.23%) but strong positives for ROA (53.72%) and ROE (59.06%), reinforcing the notion that margins and returns can outweigh pure top-line considerations. CAPLIN POINT LAB, meanwhile, displays a positive correlation with Net Margin (37.55%) but large negative correlations for ROA (–46.10%) and ROE (–56.03%), suggesting investors may question the sustainability of any margin benefits when asset efficiency or shareholder returns lag. Overall, the small-cap segment underscores how profitability and return ratios can heavily influence stock price movements, sometimes more than revenue or profit growth, reflecting investor priorities around efficient use of capital and strong margins.

V. CONCLUSION

In the Fast-Moving Consumer Goods (FMCG) space, large-cap companies such as Varun Beverages Ltd, Britannia Industries Ltd, and United Spirits Ltd tend to exhibit moderate to strong positive correlations between Return on Equity (ROE) and stock price, reflecting investor emphasis on shareholder returns. Britannia's high ROE (60%) aligns with its stock price stability, while Varun Beverages (ROE: 31%) also maintains a supportive correlation despite experiencing negative net profit growth. On the other hand, Godrej Consumer Products Ltd demonstrates a strongly negative correlation for net profit growth (–67%), suggesting that profitability pressures overshadow its otherwise solid sales growth. Among mid-caps, companies like Jyoti Lab Ltd (ROE: 67%) and Godfrey Phillips India Ltd (ROE: 66%) show that consistent profit growth and robust returns attract investors, whereas United Breweries Ltd faces market skepticism when net margin and asset efficiency dip. In small caps, high volatility can yield extreme correlations: KRBL Ltd (ROE: 48%) and Tilaknagar Industries Ltd (ROE: 48%) benefit significantly when earnings climb, but Zydus Wellness Ltd suffers from strong negative correlations across profitability measures, indicating that the market penalizes weak fundamentals. Overall, FMCG investors appear particularly attuned to profit margins and ROE, rewarding firms that convert revenue gains into sustainable shareholder returns.

Analyzing the overall trends across different companies and market segments reveals that the relationship between financial metrics and stock price is multifaceted, with no single factor driving market performance uniformly across the board. While high correlations in firms like Dr Reddy's LAB and NEULAND LABS indicate that strong performance in key metrics tends to be rewarded by rising stock prices, the presence of negative or weak correlations in other companies, such as BIOCON and CAPLIN POINT LAB, highlight the potential for market skepticism or the influence of additional variables not captured by these factors alone. Notably, AstraZeneca Pharma, a small-cap stock, demonstrates positive correlations in most areas—Sales Growth (45.66%), Net Margin (70.98%), ROA (75.18%), and ROE (74.72%)—despite a moderate negative coefficient for Net Profit Growth (–17.00%), suggesting that investors might prioritize operational efficiency and margin strength over absolute profit growth in certain market segments. This diversity in correlation patterns underscores the importance for investors and analysts to consider a range of financial indicators, as well as the specific market context and size of the company, when evaluating the potential impact on stock price movements.

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