

## THE EVALUATION OF THE RELATIONSHIP BETWEEN CAPITAL INCREASE AND STOCK RETURNS OF SELECTED LISTED COMPANIES IN TEHRAN STOCK EXCHANGE

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**Abstract:** Increase of capital as a way of financing are always attracted the attention of the corporate executives. On the other hand, one of the goals of management is the enhancement of corporate value and shareholder wealth. The study aimed to evaluate the relationship between the capital and the return on equity of the company's stock. Research was performed on listed companies of the Stock Exchange in Tehran. 132 companies were evaluated according to the criteria and characteristics of the study. In this study, the relationship between capital and return on equity during the years 2008-2012 in the Tehran Stock Exchange data was evaluated using panel data techniques. The hypotheses were analyzed using Eviews 6. The results of the project showed that there is a significant relationship between the increase in capital and the company's profitability criteria (return on assets, return on fixed assets, return on equity and return on sales).

**Keywords:** Increase of capital, return on assets, return on fixed assets, return on equity, return on sales

### INTRODUCTION:

Units may presell their products by authorization from competent authorities to finance capital in order to implement long-term development plans to release new shares or obtain credit from the banking system or with respect to its products. The financing method has a close relation with its use. Such a case can be observed in the performance of the companies listed in Tehran in recent years. Due to some limitations for the use of credit resources of the banking system and the lack of facilities and grounds for the issuance of participation, listed companies in the Tehran Stock Exchange choose increase of capital (common equity) as one of the most common means of financing. Increase of capital is considered as a step towards future growth and profitability to develop and implement manufacturing and enhance the business units. So this research tries to answer the question whether

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there is a significant relationship between the increase of capital and return on assets in the Tehran Stock Exchange listed companies.

Today, the stock market performance in developed countries are used as an indicator for evaluating policies and changes in the financial, economic and trade of these countries. With the boom in the stock market and increase public investment in manufacturing activity, in addition of providing the necessary conditions to increase production, the increased financial and long-term projects with new investment enable investors to gain good returns. With the revitalization of the stock market in 1998, the number of listed companies has increased and the volume of transactions has also grown. On the other hand, the statistics of the increase of capital in firms listed in the Tehran Stock Exchange that represents a growing trend in recent years. If companies rely too much on increase of capital and its inappropriate using without the use of other financial instruments to finance, problems such as increased cost of capital, dilution of the stock and etc. will happen followed by the strength of corporate profits dropped and investments in stock will lead to other economic activities.

So in order to continue participation in the investment, it is essential that the returns earned by Tehran Stock Exchange listed companies in this study be analyzed in a comprehensive way to determine whether the company has won a reasonable return on investment or not. Investors hoping to earn a reasonable return on their investment participate in the stock market that is the main cause of the stock existence. The present study investigated the reasons for using the increase of capital as a means to finance by the company and measured and analyzed its effects on factors related to the company's performance.

## **THEORETICAL PERCEPTIONS**

Each internal and external sources of financing has a wide variety which shall be preferred over others. Therefore, any decision that is made will have special effects and financial decisions are no exception of this issue. Because sometimes incidental effects of a particular decision create a significant change in the company, always it is necessary to be cautious and aware of the consequences of a particular decision. Increase of capital is proposed as a method of financing that has the advantages and disadvantages as well as it will effect on the company's stock price and trading volume and stock returns. Therefore, the present study sought to evaluate the success of the companies in the investment business for more efficiency and economic logic in the use of capital and justification of increase of the company's capital.

Increase of capital means the increase in the number of shares and the nominal value (Tariverdi, 2004), on the other hand, sheet stock is a negotiable document

which represents the participation and contribution obligations and interests of its owner. From The existing principle, the return on equity can be noted that shows the rate of return on assets, return on fixed assets ratio, and after-tax return of shareholders and creditors of the company that compares the ratio of investors to their investments.

In other words, the ratio shows the profit for all investors and creditors (Shabahang, 1995). In some companies, it is possible that the fixed assets of the company have an important role in the profitability of the company that it names the rate of return on fixed assets. Management education should aim to invest the maximum profit per ordinary shareholders.

So the return on equity is the best criterion for measuring success in achieving the goal of profit that is the net profit after tax of the company's capital, which represents the rate of return on equity (Shabahang, 298). Net margin is the net income to sales.

This ratio shows the profitability of revenues. As a result, it is an important measure to assess operational performance of the company. It also compared the effects of pricing products combine cost and also offers an implicit about production efficiency (Shabahang, 298). Four different theories have been offered about capital structure. The traditional theory, Modigliani–Miller theorem (MM), the preferred theory and the theory of compromise (parallel static).

The traditional theory is that the optimal capital structure exists and you can use leverage to increase the value of the company. This theory suggests that the company can reduce its capital costs by increasing its debt. On the other hand Modigliani and Miller's theory (MM) (1958) stated lining value of the company at all levels of leverage, remains constant (1998, pp. 20-28). According to the old preferential theory, the company prefers internal financing to external financing and in the form of bonds, debt securities underlying was preferred to stock. According to the theory optimal debt ratio for companies is not clear. Static trade-off theory (reconciliation) assumed that a company targets debt ratio (desired) and moves toward it. According to this theory, the optimal debt ratio is provided based on the trade-off of a company's borrowing costs and benefits. Increase of capital is proposed as a method of financing that has advantages and disadvantages and effects on the company's stock price and trading volume and stock returns. Therefore, the present study sought to evaluate the success of the companies in the investment business for more efficiency and economic logic in the use of capital and justification of increase the company's capital.

## RESEARCH BACKGROUND

Heron & Lee (2004) examined the impact of different approaches effects on equity financing, including the initial offer (IPO), secondary offerings, and offer to buy the shares of the operating performance. They found that companies that shares stocks regularly in initial offering, have improvements in the operational performance of their shares. In overall, this study shows that operational performance is high-linked with the finance company. Chi & Padgett (2006) examined the Changes in operating performance of Chinese companies after the initial public offering and the relationship between operational performance and efficiency of the companies. The findings suggest that the initial public offering will cause significant decrease in profitability, sales growth rate and efficiency of the company; also, companies that had higher return on assets before the initial public offering experienced more decrease in performance after the initial public offering.

Cohen and Thomas (2006) in a study examined the relationship between activity and return on equity financing commitment accounts. The results show that there is a negative relationship between return on equity and financing activities. Bradshaw & Richardson (2006) examined the relationship between the activities of financing; predict analysts and the efficiency of their stock. The results suggest that there is a negative relationship between the net cash from financing activities of each of the classes (equity and debt) and return on equity and profitability of the company. Zhang & Cai (2005) investigated the dynamics of capital structure and return on equity to. The results suggest that there is a negative correlation between changes in financial leverage and Return stocks. In other words, companies with more changes in their leverage have less return on equity. Wang (2005) examined the changes in operating performance of Chinese companies after the initial public offering. The result shows that changes in the company's operating performance have relation regularly with regard to the amount and type of financing company. This relation is negative relationship for future changes and is positive for the previous change.

The financing through the sale of shares provide mostly related changes in performance in comparison with other sources of financing, including long-term debt. Fvrgarty (1998) in a research on methods of financing capital structure of the companies examined financing of 300 companies ranged from 1990-1995 in Latin America. The results suggest that testing companies prefer to accumulate profits and avoid from its division. In addition to the financing of increase of capital prefer to use the issuance of new shares. The result is the opposite of preferential theory, but not the reject it theory. Sahraee (2009) examined the relationship between methods of financing (external sources) and the success and failure of the companies listed in Tehran Stock Exchange using the correlation method. The

results show that there was a significant relationship between the methods of financing and the success and failure of firms listed in the Tehran Stock Exchange and also the capital increase will affect corporate success more than the bank loans.

## RESEARCH METHODOLOGY

This study is an applied research in respect to classification based on the objective. The aim of applied research is the development of applied knowledge in a particular field. The study aims to determine the influence of independent variables on the dependent variable. In terms of research methods is deductive reasoning that the theoretical and literature collected from the library and Internet articles and to deny or prove the hypothesis of the study, inductive reasoning is used in generalizing the results by appropriate statistical methods.

### Assumptions and Research Model

#### *The main hypothesis of the research*

There is a significant relationship between the increase of capital and return on assets in listed companies in Tehran Stock Exchange.

#### *Research sub-hypotheses*

There is a significant relationship between the increase of capital and the returns of fixed assets, between the increase of capital and return on equity, and between the increase of capital and return on sales in the Tehran Stock Exchange listed companies.

In the present study to determine the effect of increased capital for corporate profitability criteria (return on assets, return on fixed assets, return on equity, return on sales), the equations (1) was used that in addition to variable capital, systemic risk, financial leverage and size as well as other explanatory variables are considered.

$$\begin{aligned} \text{ROA}_{jt} &= 0\beta + 1\beta \text{EQUITY}_{jt} + 3\beta \text{BETA}_{jt} + 4\beta \text{LEV}_{jt} + 5\beta \text{SIZE}_{jt} + \varepsilon_{jt} \\ \text{ROF}_{jt} &= 0\beta + 1\beta \text{EQUITY}_{jt} + 3\beta \text{BETA}_{jt} + 4\beta \text{LEV}_{jt} + 5\beta \text{SIZE}_{jt} + \varepsilon_{jt} \\ \text{ROE}_{jt} &= 0\beta + 1\beta \text{EQUITY}_{jt} + 3\beta \text{BETA}_{jt} + 4\beta \text{LEV}_{jt} + 5\beta \text{SIZE}_{jt} + \varepsilon_{jt} \\ \text{ROS}_{jt} &= 0\beta + 1\beta \text{EQUITY}_{jt} + 3\beta \text{BETA}_{jt} + 4\beta \text{LEV}_{jt} + 5\beta \text{SIZE}_{jt} + \varepsilon_{jt} \end{aligned} \tag{1}$$

(ROA), ROF (Return on assets), ROE (return on fixed assets) and ROS (Return on Sales) are considered as the dependent variable and the independent variables include Equity (increase of capital), Beta (systemic risk), LEV (financial leverage), SIZ (size).

### ***Data collection and analysis***

The data for this study was collected through computer databases and referring to the Securities and Exchange library, the result of Rahavard software and the site of the Securities and Exchange Organization (Research, Development and Islamic Studies). Data collection tool is the library. In this study, the relationship between the increase of capital during the years 2007-2012 in Tehran Stock Exchange are estimated using the panel data technique. The company's financial statements, including balance sheet, cash flow and the notes accompanying the financial statements at the end of each financial year (29 March) was used as a research tool. In the present study to investigate the hypothesis variables, the information about companies in the sample, first preliminary calculations in spreadsheet software (Excel) was performed, then the data for analysis were prepared, and for the final analysis, the SPSS19 software and EViews 6 software were used.

### ***Research purposes***

Scientific and applied objectives of the research are as follows:

1. The relationship between the return on increase of capitals on efficiency of listed companies in Tehran Stock Exchange
2. Informing the investors from increase of capital content
3. Information of the amount of the profitability of companies with respect to the capital structure of companies

### **Research Variables**

The main objective of this study was to explain the impact of increased capital standards for corporate profitability (return on assets, return on sales, return on fixed assets, and return on equity). In order to test the hypothesis, the multivariate regression models were used that include independent and dependent variables. (Jahankhany Abdolazadeh, 1993, pp. 77-78).

The dependent variable of the model:

POA it = Return on assets of firm i in period t

ROF it = returns the fixed assets of firm i in period t

ROE it = return on equity of firm i in period t

ROS it = Return on sales of firm i in period t

Independent variables of the Model:

EQUITY it: the increase in capital of firm i in period t.

BETA  $it$  = systemic risk index of firm  $i$  in period  $t$  that is obtained through the capital asset pricing model (CAPM).

SIZE  $it$  = the company size that is calculated via the natural logarithm of the book value of the company's total assets.

LEV  $it$  = financial leverage of firm  $i$  at the end of period  $t$

The population and the sample:

The population of this study includes all listed companies in The Tehran Stock Exchange during the period of 2008 to 2012 that the sample size is calculated by the FA systematic method based on the following criteria (Sinai, 1994, pp. 66-67):

1. Their fiscal period should be ended in March 29.
2. During the period under review (2008-2012), they do not change the fiscal year.
3. Their financial information is available.
4. They should not be the financial companies (such as banks, financial institutions) and financial intermediation companies, and investment firms.
5. In the scope of the research time, they should not have more than 3 month delay in the transaction.
6. The required information was available on the definition of variables.

Finally, the sample size due to the systematic elimination method (according to the criteria of Table 3-1) was determined 132 companies.

**Table 1**  
**The sampled companies**

<i>Description</i>	<i>Number</i>
The number of listed companies in Tehran Stock Exchange by the end of 2012	(478)
The number of companies that have been out of stock in the scope of the study	(106)
The number of companies entered the stock in the research	(38)
The number of companies in the field of research since fiscal year to 29/12 not end (81)	(81)
The number of companies that have changed in the period of the financial year (26)	(26)

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The number of companies within the investment research and financial intermediation	(25)
Engaged (25)	(70)
The number of companies in the territory of more than 3 months have been trading break (70)	(132)

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## Research Findings

The findings are presented in the form of two parts: (1) Descriptive statistics and (2) inferential statistics.

### *Descriptive statistics data*

Descriptive statistics of variables were evaluated using data from research companies test period (years 2007-2013), including mean, median, standard deviation, minimum and maximum that are presented in Table 1.

**Table 2**  
**Descriptive statistics of research variable**

<i>Variable description</i>		<i>Mean</i>	<i>Median</i>	<i>Standard deviation</i>	<i>Minimum</i>	<i>Maximum</i>
Rate of return on assets	ROA	0.080	0.138	0.403	0.005	0.524
Rate of return on fixed assets	ROF	0.085	0.115	0.400	0.003	0.522
Rate of return on equity	ROE	0.080	0.085	0.053	0.000	1.259
Return on sales	ROS	0.138	0.115	0.112	0.000	0.863
The increase of capital	EQUITY	0.403	0.400	0.069	0.200	0.600
Systemic risk	BETA	0.005	0.003	0.026	0.000	1.010
Financial Leverage	LEV	0.524	0.522	0.113	0.330	0.720
Company Size	SIZE	12.822	12.659	1.342	9.536	19.618

## Inferential Statistics

### *Reliability test of variables*

To determine the validity, the test of Im, Pesaran, Shin(1997) was used. The results of this test are shown in Table 2.



**Table 2**  
**Im, Pesaran, Shintest (IPS)**

<i>Variable</i>	<i>ROA</i>	<i>ROF</i>	<i>ROE</i>	<i>ROS</i>
W-stat	-11.543	-7.231	-18.231	-13.432
p-value	0.002	0.031	0.0052	0.001

**Table 2**  
**(continued) Im, Pesaran, Shintest (IPS)**

<i>Variable</i>	<i>Equity</i>	<i>Beta</i>	<i>Lev</i>	<i>Size</i>
W-stat	-10.324	-10.121	-15.732	-12.909
p-value	0.005	0.00191	0.0028	0.0043

According to the test results IPS (Table 2), because the significance level (p-value) for all variables is less than 0.05, so these variables have been stable during the study, which shows that the mean and the variance and covariance of variables were fixed over time and between different years.

### *Chaw test*

The Chow test is performed to determine the use fixed effects model, the integration of data (integrated model). H<sub>0</sub> and H<sub>1</sub> assumptions of the tests are:

H<sub>0</sub>: Pooled Model

H<sub>1</sub>: Fixed Effect Model

The first hypothesis is based on the amount of bound values while the opposite hypothesis is based on unbound values. Chow test statistic is based on the sum of squared errors of bound and unbound models as follows:

$$chow = \frac{(RRSS - URSS) / N - 1}{URSS / NT - N - K} \quad (2)$$

This statistic has an F distribution with degrees of freedom of N-1 and NT-NK. If the value of bound F statistics is to be lower than the value of F statistics table, the hypothesis H<sub>0</sub> is rejected and there was a significant effect for sections. Therefore, the fixed effect model is chosen, otherwise the integrated data model is used. (Ashrafzadeh and Mehregan, 2008). The results of the F test for the regression model are shown in Table 3.

**Table 3**  
**Chaw test**

<i>Regression model</i>	<i>F</i>	<i>Probability</i>	<i>The test result</i>	
First	38.909	0.0018	Null hypothesis rejection	Panel model
Second	16.543	0.0167	Null hypothesis rejection	Panel model
Third	2.121	0.561	Null hypothesis confirmation	Integration model
Fourth	3.711	0.409	Null hypothesis confirmation	Integration model

In the first and second models due to a significant level, Chow test results showed that the hypothesis H0 (integrated model) is not approved. In other words, there are individually or in groups effects, and the data analysis panel (Panel) for the estimated regression model must be used. But the third and fourth models, the Chow test confirmed H0 hypotheses (integrated model). In other words, there is no individual or group effect and data compilation methods should be used to estimate the regression model study, therefore Hausman test does not need to do.

#### *Hausman test*

This test examines the hypothesis H0 that is based on consistent of random estimates against that hypothesis H1 that is based on inconsistent of random estimates.

**Table 4**  
**Hausman test**

<i>Regression model</i>	$\chi^2$	<i>Probability</i>	<i>Test result</i>	
First	29.711	0.0015	Null hypothesis rejection	Panel with fixed effects
Second	37.126	0.00009	Null hypothesis rejection	Pane with fixed effect

The results of the Hausman test for the first and second models is shown in Table 4. Hausman test results showed that  $\chi^2$  for the first and second models is 29.711 and 37.126 which are significant at the level of 99% that suggests the hypothesis is confirmed. Thus, according to Hausman test, regression fitting of first and second model is appropriate using panel data fixed effects approach.

Test the normal distribution of variables: to check the normality of the distribution of the dependent variable the JB test was used. The test was used for dependent variable.

According to the table above and the statistics JB, since the significance level for variables is greater than 0.05, H0 hypothesis is confirmed. Therefore, we can say with 95% confidence that the variable in the above-mentioned model has the normal distribution.

**Table 5**  
**JB test**

<i>Variable name</i>		<i>JB</i>	<i>Significance level</i>	<i>Result</i>
Return on assets	ROA	0.909	0.337	Normal distribution
Return on fixed assets	ROF	0.945	0.324	Normal distribution
Return on equity	ROE	0.983	0.312	Normal distribution
Return on sale	ROS	1.023	0.300	Normal distribution

***Errors independence test***

Residual Durbin-Watson test examines serial correlation between(error) regression based on following statistical null hypothesis t:

H0: There is no correlation between the errors.

H1: There is a correlation between the errors.

Durbin-Watson statistic with critical values at 1% error is shown in table 6.

Since the calculated Durbin-Watson statistic of Regression model study of critical value is larger than 0.01, therefore, serial correlation between (error) regression in the first to fourth models at level of 0.01 are failed.

**Table 6**  
**The independence of error test**

<i>Regression model</i>	<i>Critical value (at the level of 1% error)</i>		<i>Durbin-watson test stata</i>
	<i>Du</i>	<i>Dl</i>	
First	1.565	1.375	1.811
Second	1.654	1.428	1.765
Third	1.812	1.463	1.967
Fourth	1.786	1.420	2.127

### *Variance Difference*

To estimate the variance difference in this study White test was used. The results of this test are expressed in Table 7.

**Table 7**  
**The results of variance differences**

<i>Regression model</i>	<i>White test stata</i>	<i>P-value</i>	<i>Test result</i>
First	2.433	0.422	no difference
Second	1.839	0.276	no difference
Third	2.176	0.357	no difference
Fourth	1.636	0.203	no difference

The results of White test are shown in Table 7. The results indicate that the F statistics of the first – fourth models are not significant at error 0.05. As a result, the null hypothesis that there is no difference between the data model at error variance 0.05 is confirmed. That's why OLS regression model was used. After studying classical assumptions, the results of the regression model as well as research and research hypotheses examined and tested.

### **Test Research Hypotheses**

**The main hypothesis testing** “there is a significant relationship between the increase of capital and the return on assets in the companies listed in Tehran Stock Exchange.” According to Table 8, the level of significance (sig) increase of capital variable (0.0136) is less than the considered significant level in this study (5%). The absolute value of the t-statistic for this variable (3.057) is larger than t-statistics of the table with the same degree of freedom. Therefore, the H0 hypothesis was rejected at the 95% confidence level and H1 was confirmed.

**Table 8**  
**The results of the fit of the regression equation using the fixed effect method**

<i>Variable name</i>	<i>Variable coefficient</i>	<i>Coefficient value</i>	<i>t statistic</i>	<i>Significance level</i>
<i>Dependence variable (ROA)</i>				
Constant number	$\beta_0$	0.709	2.909	0.0143
Increase of capital	EQUITY $\beta_1$	0.723	3.057	0.0136

Systematic risk	BETA	$\beta_2$	0.737	3.213	0.0129
Financial leverage	LEV	$\beta_3$	0.752	3.377	0.0123
Company size	SIZE	$\beta_4$	0.767	3.550	0.0117
Determination coefficient		0.332	F statistic		10.121
Modified determination coefficient		0.288	P-Value		0.0034
			Durbin-Watson stata		1.811

**The first sub-hypothesis test:** "there is a significant relationship between the capital and the return on fixed assets in companies listed in Tehran Stock Exchange." According to Table 9, the level of significance (sig) increased capital variable (0.0106) is below the level considered significant in this study (5%), also the absolute value of the t-statistic for this variable (3.921) is larger than the t-statistic from the table with the same degree of freedom. Therefore, The H0 hypothesis was rejected at the 95% confidence level and H1 that claimed there is a significant relationship between the capital and the return on fixed assets in companies listed in Tehran Stock Exchange was confirmed.

**Table 9**  
**The results of the fit of the regression equation using integration model**

<i>Variable name</i> <i>(dependence value) ROF</i>	<i>Variable</i> <i>coefficient</i>	<i>Coefficient</i> <i>value</i>	<i>t statistic</i>	<i>Significance</i> <i>level</i>	
Constant number	$\beta_0$	0.782	3.731	0.0061	
Increase of capital	EQUITY	$\beta_1$	0.798	3.921	0.0106
Systematic risk	BETA	$\beta_2$	0.814	4.121	0.0101
Financial leverage	LEV	$\beta_3$	0.830	4.331	0.0096
Company size	SIZE	$\beta_4$	0.846	4.552	0.0091
Determination coefficient		0.298	F statistic		9.323
Modified determination coefficient		0.256	P-Value		0.0064
			Durbin-Watson stata		1.765

**The second sub-hypothesis test:** "There is a significant relationship between the increase of capital and the return on assets in companies listed in Tehran Stock Exchange." According to Table 10, the level of significance (sig) increase of capital variable (0.0135) is below the considered significant level in this study (5%), also the absolute value of the t-statistic for this variable (3.088) is larger than the t-statistic from the table with the same degree of freedom. Therefore, The H0 hypothesis was rejected at the 95% confidence level and H1 that claimed there is a significant relationship between the capital and the return on assets in companies listed in Tehran Stock Exchange was confirmed.

**Table 10**  
**The results of the fit of the regression equation using integration model**

<i>Variable name</i> (dependence value) ROE	<i>Variable coefficient</i>	<i>Coefficient value</i>	<i>t statistic</i>	<i>Significance level</i>	
Constant number	$\beta_0$	0.677	2.938	0.0142	
Increase of capital	EQUITY	$\beta_1$	0.690	3.088	0.0135
Systematic risk	BETA	$\beta_2$	0.704	3.245	0.0128
Financial leverage	LEV	$\beta_3$	0.718	3.411	0.0122
Company size	SIZE	$\beta_4$	0.732	3.585	0.0116
Determination coefficient	0.366	F statistic		8.909	
Modified determination coefficient	0.329	P-Value		0.0058	
		Durbin-Watson stata		1.967	

**The third sub-hypothesis test:** "There is a significant relationship between the increase of capital and the return on sales in companies listed in Tehran Stock Exchange." According to Table 11, the level of significance (sig) increased capital variable (0.0105) is below the level considered significant in this study (5%), also the absolute value of the t-statistic for this variable (3.960) is larger than the t-statistic from the table with the same degree of freedom. Therefore, the H0 hypothesis was rejected at the 95% confidence level and H1 that claimed there is a significant relationship between the capital and the return on sales in companies listed in Tehran Stock Exchange was confirmed.

**Table 11**  
**The results of the fit of the regression equation using integration model**

<i>Variable name (dependence value)</i> ROS	<i>Variable coefficient</i>	<i>Coefficient value</i>	<i>t statistic</i>	<i>Significance level</i>
Constant number	$\beta_0$	0.747	3.768	0.0110
Increase of capital	EQUITY $\beta_1$	0.762	3.960	0.0105
Systematic risk	BETA $\beta_2$	0.777	4.162	0.0100
Financial leverage	LEV $\beta_3$	0.792	4.374	0.0095
Company size	SIZE $\beta_4$	0.808	4.598	0.0090
Determination coefficient	0.318	F statistic		7.543
Modified determination coefficient	0.276	<i>P-Value</i>		0.0098
		Durbin-Watson stata		2.127

## CONCLUSIONS

In this study, using statistics such as Im, Pesaran, Shin, the reliability of variables were investigated. In order to determine the appropriate model (integrated or sign fixed or random effects), Chow and Hausman test was used to test hypotheses.

Distribution of variables was evaluated using JB normal. In order to determine the independence of the errors, Durbin-Watson was used and to estimate variance Watson difference in this study, White test was used. In the last stage, the patterns in this study were considered and confirmed in accordance with the results of the study hypothesis. According to the estimates of research it was found that there is a significant positive relationship between the capital and return on assets, the increase in capital and the return on equity and also between return on sales and capital increase. Return on assets, return on fixed assets, return on equity and return on sales include the diversity of interests based on many factors,

One of the most important factors is financial resources. The main objective of the company is the increase of the performance and efficiency of companies and to use a method to help them to achieve this, so we expect that there is a significant relationship between the company capital increase and profitability measures (return on assets, return on assets, return on equity, return on sale) in listed companies on the Stock Exchange Tehran. Regarding the results of the present study that is based on a direct link between increase of capital and corporate profitability measures such as return on capital assets, return on sales,

return on equity and return on fixed assets to investors, it is recommended to consider the direct link between the increase in capital and the profitability of companies in the survey mentioned criteria in the analysis of investment projects in financial assets and securities. This is because the major factors will lead to the selection of the optimal portfolio with minimum risk and maximum return on investment, moreover, the transparency of the decision-making and the results will be doubled.

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