Tests of the Fama and French model in India

Abstract

This study empirically examines the Fama-French three-factor model of stock returns for India. We find evidence for pervasive market, size, and book-to-market factors in Indian stock returns. We find that cross-sectional mean returns are explained by exposures to these three factors, and not by the market factor alone. We find mixed evidence for parallel market, size and book-to-market factors in earnings; we do not find any reliable link between the common risk factors in earnings and those in stock returns. The empirical results, as a whole, are reasonably consistent with the Fama-French three-factor model.