

Impact of Corporate Action on Share Prices Of Indian Stock Market– An Empirical Investigation

Y. Arulsulochana, M. Padmavathi, R. Saravanan

ABSTRACT: We are daily seeing fluctuations in share prices in the stock markets. These fluctuations are due to various reasons. One of the main causes for the fluctuations in share price is due to the Corporate Actions of companies. These corporate actions can influence the shareholders. Shareholders can take the corporate actions in a positive way or negative way. On the basis of Corporate Actions, the investors make a judgment on the future performance of the companies. On the basis of this judgment, investors buy or sell securities. Distributions of dividend/interest, issue of rights/bonus shares, issue of fresh securities by issuers, splits, etc. made by the companies are called corporate actions. Corporate Actions are essential for all companies. An attempt is made in this study to see whether corporate actions influence the share price or not. For this study, 19 companies listed in the NSE were considered and five corporate actions were identified. Cumulative Abnormal Return and Z test was used to see the impact of Corporate Actions on Share Price. Overall company analysis shows that more number of positive abnormal returns before corporate action announcement and less abnormal returns after announcement. Hence, it can be stated that market reacts positively before announcement. Z test and Cumulative Abnormal Return proves that corporate action announcement exerts an impact on share price. This study is of immense utility to investors as they can understand changes in share prices of companies and market movement during Dividend, Stock Split, Bonus announcements, Rights issue announcement and Buyback of shares that would be helpful to them for making good portfolio investment decision in the right time.

Key Words: Corporate Action, Cumulative Abnormal Return, Z Test

I. INTRODUCTION

Stock market securities are more than a passive token of investment value to those who deal in it. The starting point of corporate actions is the ownership of individual units of investments. The ownership of common stock gives the investor the right to elect board of directors, vote for corporate actions that require shareholder approval, share in corporate earnings in the form of dividends, to participate additional shares being issued (Right issue), and to retrieve residual assets of the company at the time of liquidation. So, along with ownership of shares, there are benefits and rules to protect the rights attached to each share.

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The type and kind of corporate action would vary according to the way it is being defined. As per one definition, the corporate action is described as “an event initiated by a company that affects its share”. Out of these four corporate actions which are selected as the events, two of them do have monetary implications and the other two have strategic implications. As is evident, dividend and bonus issue are having monetary implication and stock split and merger information are having strategic implication as far as the shareholders are concerned. In short, the representativeness of the sampling done in order to select the four events for the study have become comprehensive by incorporating events having monetary and strategic dimensions.

II. REVIEW OF PAST STUDIES

Garcia de Andoin and Bacon (2009) investigated the impact of stock split announcement on the stock prices of companies listed in NASDAQ. Their study had concluded that “firms’ public stock split announcements did not affect stock price on the announcement day”. Pavabutr and Sirodom (2008) studied the impact of price and liquidity on the stock exchange of Thailand. They found that stock splits can have favourable impact on stock price through reduction of trade frictions such as bid-ask spreads and price impact measures. Dr. Kammili Kamalakara Rao (2014) described the Corporate Actions and its impact on Prices of Indian Stock Markets Prices. He analyzed the impact of announcement of corporate actions viz. Stock Split, Consolidation and Share buyback on the traded volumes of the shares on the stock exchanges. This study concluded that corporate actions are having significant impact on the market price of stocks. Mayank Joshipura, Nusrathunnisa (2013) tried to analyse the Market Reaction to Bonus Announcement during Global Financial Crisis Era. Remya, Ramachandran (2013) tested the efficiency of Stock Market by analysing the dissimilation of corporate event announcements like dividend, Stock Split, merger and Bonus issue. M. Muthukamu and Dr. S Rajamohan (2015) analyzed the behavior of the share prices in the Indian equity market towards the announcements of bonus issue, taking into account the price movements of the Nifty Index and to find out the impact of the price behavior by comparing the stock performance with the performance of the market index.

III. OBJECTIVES OF THE STUDY

1. To assess the impact of Corporate action announcement on share prices

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2. To examine whether there is any abnormal returns around the Corporate Action announcement window.
3. To select the shares based on the corporate actions.
2. There is no abnormal returns around the corporate action announcement

IV. RESEARCH METHODOLOGY

A. Hypothesis of the Study

The following null hypotheses are tested to study the impact of corporate action on stock prices of selected companies

1. There is no impact on the price of shares due to Corporate Actions

B. Data and Sources of Data

In this study, total of 19 companies listed under NSE 500 index have been selected randomly. Daily closing price values of 19 companies are collected for the period of 6 months from November 2017 to April 2018. Corporate actions announcement made by the sample companies are listed below.

S. No.	NAME OF THE COMPANY	CORPORATE ACTION
1	Piramal Enterprises Ltd	Rights Issue
2	Tata Steel Ltd	
3	Indiabulls Ventures Ltd	
4	Crisil Limited	Dividend
5	Ambuja Cements Limited	
6	Schaeffler India Limited	
7	Vesuvius India Limited	
8	Linde India Limited	
9	Bharat Electronics Limited	Buyback Of Shares
10	Eclerx Services Limited	
11	BalrampurChini Mills Limited	
12	Unicherm Laboratories Ltd	
13	Kpr Mill Limited	Stock Split
14	Marathon Nextgen Realty Limited	
15	India Nippon Electricals Limited	
16	Gail (India) Limited	Bonus Issue
17	Oil India Limited	
18	Indian Oil Corporation	
19	Kelton Tech Solution	

C. Tools used for this study:

Abnormal Returns: It is the difference between actual return and expected return. Abnormal returns are triggered by Events. Event study methodology is used in this study, which tries to measure the effect of an event and how quickly the events viz. Dividend, Stock split, Rights, Buyback and Bonus issue are reflected in asset prices.

$$AR_{it} = R_{it} - E(R_{it})$$

AR_{it} - abnormal return for firm i on day t

R_{it} - actual return for firm i on day t

$E(R_{it})$ - expected return for firm i on day t

Z TEST

The research has been designed to test the above hypothesis by calculating the sample means by using the difference in the two sample means to test the difference in the two

population means". The Z score has been computed using following formula

$$Z = \frac{(\bar{X}_1 - \bar{X}_2) - (\mu_1 - \mu_2)}{\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}}} = \frac{(\bar{X}_1 - \bar{X}_2) - (\mu_1 - \mu_2)}{\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}}}$$

This research involves comparing two samples and testing whether there is a difference in the average volumes. Rejection Region for Two-Tailed Z Test ($H_1: \mu \neq \mu_0$) with $\alpha = 0.05$. The decision rule for Two tailed Z test is "Reject H_0 (NULL Hypothesis) if $Z \leq -1.960$ or if $Z \geq 1.960$ ".

The reference value of Z score at 95% confidence level is +/- 1.96 in the case of two tailed test. The value is compared with the computed z scores.

Data Analysis and Interpretation:

S. No.	NAME OF THE COMPANY	CORPORATE ACTION	CAR BEFORE	CAR AFTER
1	Piramal Enterprises Ltd	Rights Issue	Negative	Positive
2	Tata Steel Ltd		Negative	Positive
3	Indiabulls Ventures Ltd		Negative	Negative
4	CRISIL Limited	Dividend	Negative	Negative
5	Ambuja Cements Limited		Positive	Negative
6	Schaeffler India Limited		Negative	Negative
7	Vesuvius India Limited		Positive	Positive
8	Linde India Limited	Buyback Of Shares	Negative	Negative
9	Bharat Electronics Limited		Positive	Negative
10	Eclerx Services Limited		Positive	Negative
11	BalrampurChini Mills Limited		Positive	Positive
12	Unicherm Laboratories Ltd		Positive	Negative
13	KPR Mill Limited	Stock Split	Negative	Negative
14	Marathon Nextgen Realty Limited		Negative	Positive
15	India Nippon Electricals Limited	Bonus Issue	Positive	Positive
16	Gail (India) Limited		Positive	Negative
17	Oil India Limited		Negative	Positive
18	Indian Oil Corporation		Positive	Negative
19	Kelton Tech Solution		Positive	Positive

D.Right Issue:

The above cumulative abnormal result shows that Piramal Enterprises Ltd and Tata Steel Ltd. have Negative CAR before announcement and Positive CAR after announcement. The investors can buy the shares after announcement of corporate action will be profitable. CAR is negative before and after corporate action announcement so that investors could wait for the further share price fluctuations to create profit.

E.Dividend:

Ambuja Cements Ltd. and Vesuvius India Limited have positive CAR before corporate action announcement and Negative CAR after announcement. So, the investors can trade with this company shares before corporate action announcement. CRISIL Ltd., Schaeffler India Limited and Linde India Limited have negative CAR before and after corporate action Dividend announcement. The investors will not get profit during this period if they buy the shares.

F.Buyback of Shares:

BalrampurChini Mills Limited has positive CAR before and after corporate action announcement. Bharat Electronics Limited, Eclerx Services Limited, BalrampurChini Mills Limited, Unicherm Laboratories Ltd have positive CAR on before announcement and negative CAR after announcement. Investors can trade before announcement to make profit.

G.Stock Split:

India Nippon Electricals Limited has positive CAR before and after corporate action announcement. Marathon

Nextgen Realty Limited has negative CAR before announcement and positive CAR after announcement. Investors can trade with this company after corporate action announcement.

H.Bonus Issue:

Kelton Tech Solution has positive CAR before and after corporate action announcement. GAIL (India) Limited and Indian Oil Corporation have positive CAR before announcement and negative CAR after announcement. Investors can trade before announcement. Oil India Limited has Negative CAR before announcement and positive CAR after announcement, investors can trade with this company after announcement will generate profit to them.

I.Z test:

The analysis shows that the impact of corporate actions viz. Right Issue, Dividend, Buyback of shares, Stock Split and Bonus Issue on stock price is verified. To find out the significance Z test was used. The result shows that the corporate action has an impact on stock prices of selected companies except AmbujaCements Ltd (Dividend), KPR mills Ltd. (Buy back of shares) and Oil India Ltd. (Bonus Issue). The calculated Z score is fall within the limit of +/- 1.96 for three companies Ambuja Cements Ltd., KPR Mills Ltd and Oil India Ltd. Hence Null hypothesis accepted and could say there is no impact of corporate action on stock prices.

V.CONCLUSION

Overall company analysis shows that more number of positive abnormal returns before corporate action announcement and less number of positive abnormal returns after announcement.

Z test and Cumulative Abnormal Return proves that corporate action announcement exerts an impact on share price. This study will help the investors to take a decision regarding investment. This study reveals that Cumulative Abnormal Return was high before corporate announcement. If investors make investment before announcement it will be profitable to them.

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