

# A STUDY ON IMPACT OF CORPORATE ACTION ON STOCK PRICE

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## ABSTRACT:

Do you at any point notice that the price of a share of a specific share of a company is falling or raising? A fluctuation occurs in the price level of stock because of changes in various factors like external and internal environment. Stock market is volatile. Behind these factors' information released by the corporate public companies effect volatility in security prices. As corporate actions may impact the company's share price, many financial analysts observe stock performance on the announced date and consider it is a gauge of how the market will treat the news about particular company. Depending upon risk and return characteristics of individual share. Any investor attempts to choose the most desirable securities and like to allocate his funds over this group of securities. Announcement like dividend, splits, merger and acquisitions of company any internal and external users of information interested in it. These corporate actions play a vital role in the change in security prices in time span. In the search of news with respect to company investor primary depends of fundamental data. A part from these sources he looks at press release announced in the market. According theory of efficient market, states it is impossible to beat the market because stock market efficiency causes existing share prices to always incorporate and reflect all relevant information.

## INTRODUCTION

### Introduction to the study:

Corporate moves are those activities made by the supervisory group of a corporate element. One of the cardinal standards of a corporate management is to improve the investor esteem. Corporate activities are a piece of significant worth improving activity embraced by the administration. These corporate activities might require further activity with respect to financial backers. Corporate activities could be as dividend, rights qualification, bonus, mergers, stock split, combination and so on when a traded on an open market organization gives a corporate activity, it's anything but an interaction that will carry changes to its stock. Corporate activities draw in the consideration of investors since the attempted corporate activity shows an

adjustment of the organization's monetary undertakings. There is a conviction among financial backers that market costs are influenced by corporate activities in view of this consideration.

### 1.1 Background of the study

Corporate occasions effectively affect the financial exchange and it is been seen that stock value developments is a space of examination that pulled in the consideration of different researchers. Therefore, the present study attempts to contribute to the understanding of the behavior of indian share prices in relation to corporate actions. A standard event study methodology is adopted in this study to examine the impact and price reactions of bse sensx companies of bse surrounding 60 days of the announcement dates. Abnormal returns were calculated and t-tests are conducted to test the significance. From the study, it can be inferred that stock split, rights issue, bonus, dividend, mergers and buy-back of stocks etc. Announcement have positive impact of stock prices around announcement dates.

### NEED AND IMPORTANCE OF STUDY

Middle class people with earning capacities are increasing, simultaneously inflation is also increasing. So the people who are intended to invest into stock markets are also increasing. Corporate actions play vital role increase and decrease value of price it shows effect on investment into stocks. This study also contributes to conceptual knowledge, from indian stock market perspective and from practical perspective, this study findings will be useful for investor. From past decades it has been observed reforms in the indian stock market. The process of reforms in the stock market needs to be extending to speedier conclusion of transactions, greater transparency in operations, improved services to investors and greater investor protection while at the same time encouraging corporate sector to raise resource directly from the market on an increasing scale. Modernization of the stock exchanges to bring them equal to world standards in terms of transparency and reliability are also necessary if foreign capital is to be attracted in significant scale

### RESEARCH & METHODOLOGY

The proposed study is descriptive in nature, purely based on secondary data. Companies listed under the bse 100 index have been selected at a random basis. Event study methodology is used to data analysis, which tries to measure the effect of an event and how quickly these events are reflected in asset prices, is used to analyses the effect of the selected events, dividend, stock split, merger & acquisition and bonus issue. In this method two-stage approach is used to test the stock price responses to corporate action announcement. The first stage consists of estimation of parameter like beta based on the ex-post returns on stocks and market index, and expected returns on each of the stocks based on the market model. In the second stage these estimated parameters are used to calculate abnormal returns around the event day. In this study, the date of corporate action announcement is defined as day 0 or event day. If event day is a non-trading day then the immediately following trading day is considered as an event day. Pre-announcement period includes 30 trading days prior

to the corporate action announcement date, (-30 to -1). Postannouncement period includes 30 trading days after the corporate action announcement (+1 to +30). Thus, we have taken the event window of 61 trading days (including day 0 as the event day).

### **Data management**

The data collected for the project is secondary data. Secondary data is published data. It is already available for using and it saves time. The main source of secondary data are published market surveys, government publications advertising research report and internal report such as sales, sales records orders, customer complaints and other business records etc. The study has also depended on secondary data to little extent, which is collected through internal source.

#### **Sources of secondary data:**

- Internet
- Magazines
- Newspapers

these sources were used to obtain information on banks and other institutions history, current issues, policies, procedures etc, wherever required

### **hypothesis**

H1: there is a significant impact on the price of shares due to corporate actions

H0: there is no impact on the price of shares due to corporate actions

### **statistical tools**

Fama, fisher, jensen and roll have developed a methodology for event studies. The following steps are involved:

1. The expected and actual return, before and after the event, using the market model or the capital asset price model are calculated.
2. The abnormal return (ar), as the difference between the expected return and the actual return is calculated.
3. The cumulative abnormal return (car) is calculated.

### **LIMITATIONS OF STUDY**

1. Study of corporate actions is limited to dividend, bonus, stock splits and merger & acquisition only.
2. The project is mainly depended on secondary sources.
3. Research methodology and data analysis tools are limited only “event study methodology”

**REVIEW OF LITERATURE**

**REVIEW-1**

TITLE	DATE	AUTHOR
Impact of Corporate Action in Stock Market	March 2016	Dr. Kammili Kamalakara Rao

**description:** the reason for this examination was to break down the effect of declaration of corporate actions of stock split, consolidation and share buyback on the exchanged volumes of the offers on the stock trades. This investigation inferred that corporate actions are fundamentally affecting the market cost of stocks

**REVIEW-2**

TITLE	DATE	AUTHOR
A Study on Semi-Strong Efficiency of Indian Stock Market	September 2013	Remya Ramachandran

**description:** the investigation targets analyzing the proficiency of indian stock market by examining stock cost and exchanging volume response resultant upon the corporate activity data. In the event that the market is effective costs completely mirror all data and to assess there is no degree for unusual returns and sensational expansion in the exchanged volume subsequent upon such arrival of data. Here the effectiveness of financial exchange is tried by breaking down the dissimilation of corporate occasion declarations like profit, stock split, consolidation, bonus issue.

**REVIEW-3**

TITLE	DATE	AUTHOR
Impact Of Stock Split Announcement On Stock Prices	March 2014	D. Bhuvaneshwari Dr. K.Ramya

**description:** - the current examination endeavours to add to the comprehension of the conduct of indian share prices according to stock split declarations. A standard occasion study technique is embraced in this examination to look at the effect and price responses. The examination tracked down that the financial backers

acquire huge profits from the declaration date and around the declaration dates of stock split. T esteems for both aar and caar was utilized to decipher the outcomes. These realities show that stock split declarations prompts more certain strange returns and helps in anticipating the future returns and market productivity.

**REVIEW-4**

TITLE	DATE	AUTHOR
Stock Market Reactions to Announcements of Stock Splits	Feb- 2015	Dr. Swati Mittal

**description:** the goal of this paper is to check whether proficient market speculation holds for indian financial exchange or not i.e., regardless of whether there is any development in share prices previously or after the rights issue declarations. The investigation found that market responds positive to this sign and sees the stock split as uplifting news bringing about the increment in share prices following the declaration. The outcomes show that the indian capital market is semi solid productive as it is utilizing the data pertinent for security valuation and for venture dynamic. The role of sebi can be instrumental in forestalling insider exchanging with the goal that the certainty of the financial backers is kept up and the securities exchange can turn out to be more energetic and dynamic.

**REVIEW-5**

TITLE	DATE	AUTHOR
Stock Price Reaction to Bonus Issue - Evidence from Indian Equity Market	March 2015	M. Muthusamy Dr, S Raja Mohan

**description:** an endeavor has been made in this investigation, to break down the conduct of the share prices in the indian value market towards the declarations of reward issue, considering the price developments of the nifty index stocks that has reported its reward issue, and to discover the effect of the price conduct by contrasting the stock execution and the presentation of the market record. It is seen from the examination that the scrip's in the nifty index having higher reward proportion observer a positive effect and perform better compared to the market index. And yet in the event that the reward issue is more modest in size, it neglects to draw in the financial backers and henceforth conveys an adverse consequence. The exploration study has additionally demonstrated that the presentation of that scrip's having lesser reward proportion is failing to meet expectations contrasted with the market execution. Thus it is reasoned that the indian equity market is likewise acting indistinguishable from the major global equity markets comparable to the issue of extra shares.

**REVIEW-6**

TITLE	DATE	AUTHOR
Corporate action processing: what are the risks?	May 2004	OXERA( Oxera is an independent economic consultancy—one of the largest in Europe)

**description:** based on the study’s findings, and given the increased focus on operational risk management in the industry worldwide, it is important to raise awareness in the securities industry that corporate actions do involve significant potential risks and costs, affecting the front office as well as the back office.

**REVIEW-7**

TITLE	DATE	AUTHOR
Corporate Actions. A Guide to Securities Event Management	March 2013	Michael Simmons and Elaine Dalgies

**description:** it is important to know that security providers and their advisers will continue to find ways to make more money, offer options to their shareholders and restructure their finances. And life cycles, providing a basic structure that can be applied to the environment of current and future corporate actions. In this way the operators are ready to tackle this ever-present situation in the security industry.

### RESEARCH DATA ANALYSIS INTREPRETATIONS

#### Research data analysis intrepretations

**1.Tech Mahindra Ltd**

Calculation AR, CAR and t Test for each day

Before			After				
Period	AR	CAR	t Test	Period	AR	CAR	t Test
-30	-0.0204	-0.0204	-1.5170	1	-0.0080	-0.0080	-0.5932
-29	0.0087	-0.0117	0.6481	2	-0.0308	-0.0388	-2.2922
-28	-0.0032	-0.0149	-0.2372	3	0.0041	-0.0347	0.3060
-27	-0.0082	-0.0230	-0.6072	4	-0.0044	-0.0391	-0.3262
-26	-0.0240	-0.0470	-1.7860	5	-0.0011	-0.0402	-0.0814
-25	0.0261	-0.0210	1.9379	6	-0.0076	-0.0478	-0.5676
-24	0.0183	-0.0027	1.3616	7	-0.0378	-0.0855	-2.8084
-23	-0.0083	-0.0110	-0.6162	8	0.0060	-0.0796	0.4434
-22	0.0028	-0.0082	0.2095	9	0.0019	-0.0777	0.1417
-21	-0.0043	-0.0125	-0.3210	10	0.0125	-0.0652	0.9269
-20	-0.0226	-0.0351	-1.6831	11	0.0145	-0.0507	1.0821
-19	-0.0063	-0.0414	-0.4655	12	0.0276	-0.0231	2.0507
-18	-0.0063	-0.0476	-0.4662	13	-0.0050	-0.0281	-0.3740
-17	0.0034	-0.0442	0.2565	14	-0.0126	-0.0407	-0.9372
-16	-0.0097	-0.0539	-0.7204	15	0.0013	-0.0394	0.0988
-15	-0.0032	-0.0571	-0.2417	16	-0.0058	-0.0452	-0.4295

-14	0.0253	-0.0318	1.8835	17	-0.0037	-0.0489	-0.2771
-13	0.0083	-0.0235	0.6190	18	-0.0179	-0.0668	1.3314
-12	-0.0042	-0.0277	-0.3118	19	-0.0072	-0.0740	0.5365
-11	0.0148	-0.0129	1.0972	20	0.0093	-0.0647	0.6944
-10	-0.0062	-0.0191	-0.4595	21	-0.0128	-0.0774	0.9493
-9	-0.0021	-0.0212	-0.1580	22	-0.0214	-0.0988	1.5883
-8	-0.0181	-0.0393	-1.3481	23	-0.0494	-0.1482	3.6730
-7	0.0131	-0.0262	0.9770	24	0.0113	-0.1369	0.8403
-6	0.0280	0.0018	2.0827	25	0.0316	-0.1052	2.3527
-5	-0.0248	-0.0230	-1.8419	26	0.0148	-0.0905	1.1001
-4	-0.0081	-0.0310	-0.5995	27	0.0125	-0.0780	0.9269
-3	0.0029	-0.0281	0.2185	28	-0.0230	-0.1010	1.7113
-2	0.0116	-0.0164	0.8656	29	-0.0061	-0.1071	0.4522
-1	-0.0232	-0.0397	-1.7291	30	0.0096	-0.0974	0.7168

Above table shows that positive ar is seen for 13 days before the split declaration and 12 days after the declaration it shows that stock is giving strange return before the declaration more than after the declaration window.

The above table uncovers that ar shows huge increment just on the - 25th, - fourteenth , - sixth days and +12th, +25 days split data and subsequently it tends to be reasoned that unusual returns can be acquired on discharge split declaration in both when window.

**Hypothesis testing**

H1: there is a significant impact on the price of shares due to corporate actions

H0: there is no impact on the price of shares due to corporate actions

H<sub>1</sub> is accepted and h<sub>0</sub> rejected

**Parametric test (t- test)**

To test the statistical significance between ars of the pre and post-split announcement period t-test is applied and the result is provided in the table

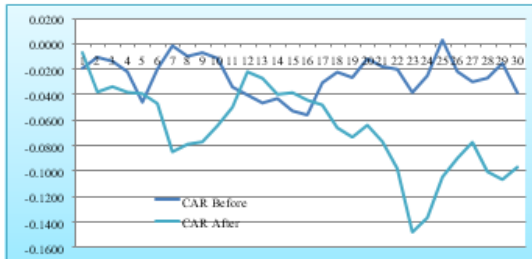
AR		
	Before	After
Mean	-0.0013	-0.0032
t Test	-2.9524	-7.2476

The mean value of ar for 30 days before the announcement is 0.0002 and that for 30 days after the announcement is -0.007. To test the significance of difference t test (5% level of significance) is applied and



from the result of the above analysis it is clear that the split information will not influence share price of the companies in a significant manner

**Graph showing CAR before and after Announcement**



Above graph showing car in before and after announcement is negative; it reveals that there is no positive abnormal return before announcement window.

As part of this study, abnormal returns (ar) and cumulative abnormal returns (car) were calculated, during each dividend declaration event window. For techm, 10 dividend announcement event windows have been taken into consideration. The below graph shows the trends



The mean car over above period is: **2.62%**.

Tech mahindra has been giving once in a year dividend. Hence, it has only 10 observations in last 10 years. While the mean car shows a positive number, it cannot be conclusively said that dividend announcement for tech mahindra is more likely to give positive abnormal returns. The overall trend line is flat, though it seems like going slightly lower. It quite likely, that it will average out to zero in next few years.

### RESEARCH FINDINGS AND CONCLUSIONS

#### FINDINGS

1. Corporate actions are having positive impact on stock prices.
2. All selected stocks are earning more number of positive abnormal return before Window and less number of positive abnormal returns after announcement window
3. Corporate actions lead to more liquidity of the securities.

4. Investors are earning abnormal return before announcement window but abnormal return was not statistically not significant.

### 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. Hence, it can be stated that market reacts to corporate action announcement positively before announcement and less positive after the announcement. Paired sample t test 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 bonus announcements that would be helpful to them for making good portfolio investment decision in the right time.

### RECOMMENDATIONS

- A. Before announcement window of corporate action is time window that maximizes the return for shareholders.
- b. After period of announcement of corporate action is not gives satisfactory return
- c. Investor can earn abnormal return surrounding the corporate announcement.

### REFERENCE

[www.bseindia.com](http://www.bseindia.com)      [www.nseindia.com](http://www.nseindia.com)      [www.moneycontrol.com](http://www.moneycontrol.com)      [www.economicstimes.com](http://www.economicstimes.com)  
[www.businessline.com](http://www.businessline.com)      [www.eventstudytools.com](http://www.eventstudytools.com)