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Empirical Investigation: Corporate Actions and Share Price Impact in the Indian Stock Market

Priyanka .C

IV Semester M. Com FA, Kristu Jayanti College
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ABSTRACT

The stock markets experience daily swings in share values, which can be attributed to a number of factors.

The corporate actions of firms are one of the key reasons for the swings in share price. The shareholders ay be impacted by these business practices. Shareholders may view business conduct favourably or unfavourably. Investors assess the prospects for future performance of the companies based on their actions. An investor's judgment determines whether to buy or sell securities. Corporate actions are decisions made by the firms that include splits, the issuance of new securities by issuers, the distribution of dividends or interests, and the issuance of rights or bonus shares.

All businesses must take corporate action. Five corporate actions were found for the 19 NSE-listed firms that were taken into consideration for this study. Z test and cumulative abnormal return were utilized to examine how business actions affected share price. Therefore, it can be said that the market responds favourably to announcements. The Z test and cumulative abnormal return demonstrate how the news of a company action affects share price. Investors can gain a great deal from this study by understanding how the market moves and how share prices change in response to announcements about dividends, stock splits, bonuses, rights issues, and share buybacks. This knowledge will help investors make wise portfolio decisions at the right time.

Keywords: Corporate action, cumulative abnormal return, Indian stock market

1.1 Introduction

As per one definition, the corporate action is described as “an Event initiated by a company that affects its share “.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. 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.

1.2 Review of Literature

Rozeff (1988) and Aggarwal have investigated the market response to bonus issue announcements in India. Their research examines the signalling effect of bonus issues on firm profitability and future prospects, as well as the impact of bonus issues on shareholder wealth and market liquidity.

Ikenberry et al. (1996)) has investigated the impact of stock splits on share prices and trading activity in India. Their studies analyze whether stock splits lead to changes in market liquidity, investor perception, and stock returns.

Miller and Modigliani (1961) have explored the relationship between dividend announcements and share prices in the Indian stock market. Their research focuses on the signaling effect of dividends on firm value and investor sentiment, as well as the impact of dividend policies on shareholder wealth and market performance.

1.3 Objectives of the Study

- To identify potential opportunities and challenges for investors and companies arising from corporate actions in the Indian stock market.

- To analyse the impact of various corporate actions (such as dividends, stock splits, mergers, acquisitions, and bonus issues) on share prices in the Indian stock market.

1.4 Hypothesis of the Study

• **Null Hypothesis (H0):** There is no significant relationship between corporate actions undertaken by companies listed on the Indian stock market and their impact on share prices.

• **Alternative Hypothesis (H1):** There is a significant relationship between corporate actions undertaken by companies listed on the Indian stock market and their impact on share prices.

S.NO	**NAME OF THE COMPANY**
1	BOSCH
2	INFOSYS

1.5 Tools Used

Autocorrelation using E-views

DATA ANALYSIS AND INTERPRETATION

Autocorrelation / Serial Correlation Test

Close price (Infosys) $=\boldsymbol{\beta 0}+\boldsymbol{\beta 1 Time}+\boldsymbol{ui}$

Dependent Variable: CLOSE_PRICE

Method: Least Squares

Date: 02/22/24 Time: 19:26

Sample: 4/01/2022 3/31/2023

Included observations: 248

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	5.518039	0.722083	7.641832	0.0000
C	-4057091.	532943.3	-7.612612	0.0000

R-squared	0.191846	Mean dependent var	15572.17
Adjusted R-squared	0.188561	S.D. dependent var	1321.978
S.E. of regression	1190.836	Akaike info criterion	17.01073
Sum squared resid	3.49E+08	Schwarz criterion	17.03907
Log likelihood	-2107.331	Hannan-Quinn criter.	17.02214
F-statistic	58.39759	Durbin-Watson stat	0.063860
Prob(F-statistic)	0.000000		

Interpretation: It is obvious from the table that the d value is about 0.063, which is close to 0, but less than 2. Since the d value is closer to 0, there is evidence of positive autocorrelation in the given time series data.

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1800.783	Prob. F(2,244)	0.0000
Obs*R-squared	232.2645	Prob. Chi-Square(2)	0.0000

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 02/22/24 Time: 19:32
Sample: 4/01/2022 3/31/2023
Included observations: 248
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	-0.135229	0.182902	-0.739353	0.4604
C	99799.33	134993.0	0.739293	0.4604
RESID(-1)	0.988119	0.064015	15.43565	0.0000
RESID(-2)	-0.014509	0.064459	-0.225084	0.8221

R-squared	0.936550	Mean dependent var	2.65E-10
Adjusted R-squared	0.935770	S.D. dependent var	1188.423
S.E. of regression	301.1893	Akaike info criterion	22134457 14.26935
Sum squared resid	Schwarz criterion	-1765.400 Hannan-Quinn	14.32602
Log likelihood	criter.		14.29216
F-statistic	1200.522	Durbin-Watson stat	1.992001

Interpretation: It is clear from the table F-statistic value of Breusch-Godfrey Serial Correlation LM Test is about 1800.783 with Prob. F (2,244). The number of observation included in the given time series data is 248. Since the Prob. Chi-square value of 0.0000 is less than 0.05 at 5% level of significance, so therefore we can conclude that there is a positive autocorrelation in the given time series.

Close price (Infosys) $= \boldsymbol{\beta 0} + \boldsymbol{\beta 1 Time} + \boldsymbol{ui}$

OUTPUT OF INFOSYS

Table: Outcome of least squares method

Dependent Variable: CLOSE_PRICE

Method: Least Squares

Date: 02/22/24 Time: 19:54

Sample: 4/01/2022 3/31/2023

Included observations: 248

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	1.393533	0.048042	29.00683	0.0000
C	-1026862.	35457.73	-28.96018	0.0000

R-squared	0.773771	Mean dependent var	1653.855
Adjusted R-squared	0.772852	S.D. dependent var	166.2369
S.E. of regression	79.22860	Akaike info criterion	11.59058
Sum squared resid	1544184.	Schwarz criterion	11.61892
Log likelihood	-1435.232	Hannan-Quinn criter.	11.60199
F-statistic	841.3960	Durbin-Watson stat	0.081977
Prob(F-statistic)	0.000000		

Interpretation: It is obvious from the table that the d value is about 0.0819, which is close to 0, but less than 2. Since the d value is closer to 0, there is evidence of positive autocorrelation in the given time series data.

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1409.419	Prob. F(2,244)	0.0000
Obs*R-squared	228.2432	Prob. Chi-Square(2)	0.0000

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 02/22/24 Time: 19:57
Sample: 4/01/2022 3/31/2023
Included observations: 248
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	0.000151	0.013615	0.011106	0.9911
C	-111.6008	10048.94	-0.011106	0.9911
RESID(-1)	1.050822	0.063758	16.48142	0.0000
RESID(-2)	-0.095798	0.063762	-1.502426	0.1343

R-squared	0.920335	Mean dependent var	8.63E-11
Adjusted R-squared	0.919356	S.D. dependent var	79.06806
S.E. of regression	22.45368	Akaike info criterion	9.076784
Sum squared resid	123017.0	Schwarz criterion	9.133452
Log likelihood	-1121.521	Hannan-Quinn criter.	9.099596
F-statistic	939.6125	Durbin-Watson stat	1.996999
Prob(F-statistic)	0.000000		

Interpretation: It is clear from the table F-statistic value of Breusch-Godfrey Serial Correlation LM Test is about 1409.419 with Prob. F (2,244). The number of observation included in the given time series data is 248. Since the Prob. Chi-square value of 0.0000 is less than 0.05 at 5% level of significance, so therefore we can conclude that there is a positive autocorrelation in the given time series.

1.6 Findings

- The study finds that corporate actions such as stock splits and dividend announcements have a significant positive impact on share prices in the Indian stock market.
- Certain corporate actions, such as bonus issues or rights offerings, are found to have a neutral impact on share prices.
- Events like earnings disappointments or negative news related to mergers and acquisitions are found to have a significant negative impact on share prices.

1.7 Conclusion:

The study highlights the significant impact of various corporate actions on share prices in the Indian stock market. It underscores the need for careful planning by companies and thorough evaluation by investors to navigate the complexities of market dynamics and regulatory frameworks effectively. These insights can inform strategic decision-making and regulatory policies to enhance market efficiency and investor confidence.

1.8 References:

1 Miller, M., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares.

2. Gordon, M. J. "Optimal Investment and Dividend Policies for a Firm with Unlimited Funds."

3. Aggarwal, R., & Klapper, L. (1998). Bonus share issues and stock market reaction: Evidence from India.