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Evaluating of Corporate Actions and Market Effiency in India

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ABSTRACT:

Corporate actions play a crucial role in stock price movements in and around the record date. It is used by rational investors to buy or sell shares involved in the decision-making process. Corporate actions have direct or indirect impact on the total return on investment (ROI) of the company based on the company's shareholder ratio. Corporate actions include issues of bonus, split, dividend, buyback etc. Whereas previous study focused on individual corporate action, this study will focus on all major actions such as bonus issues, stock split and rights issued by companies listed on the Mumbai Stock Exchange over 3 months. The purpose of this study is to test the market effectiveness of corporate action using various tools like spss tools such as correlation.

The stock market in India has seen a lot of changes in recent years. The number of listed companies on the stock exchange has increased significantly, and new investment opportunities have opened up. The purpose of this paper is to analyse the correlation between corporate behaviour and market efficiencies in India. The study finds that market efficiencies have improved in India over the years, as new regulations have been introduced and investor awareness has increased. Despite this, there are still some areas where market efficiencies exist. These include insider trading and price manipulations, which require additional regulatory intervention.

KEYWORDS: Corporate actions, Market efficiency, India, Stock market exchange, Bombay stock Exchange.

INTRODUCTION:

India's stock market is one of the fastest-growing and most dynamic in the world, attracting domestic and foreign investors alike. With an increasing number of listed companies and new investment opportunities on the market, the market has gone through a number of changes over time. Business decisions such as stock split, bonus issue, rights issue, and dividend payment are among the most common business decisions in the market and have a significant impact on a company's stock price and overall market performance. The extent to which stock prices reflect all available information and investors' ability to make sound investment decisions is known as market efficiency. An efficient market ensures that capital is allocated efficiently and investors get a fair return on their investment.

In industrialized markets, there is a lot of research on the correlation between corporate behaviour and market efficiency. However, in developing markets such as India, there is less research on this topic. This study aims to bridge this gap by looking at the correlation between corporate actions in India and market efficiency. The study utilises the Mumbai Stock Exchange (BSE) secondary data for the analysis. The sample consists of 2 companies listed on both the exchanges. Companies were selected based on their market capitalisation, and data availability for a period of 3 months. Corporate actions are mainly used by companies to return profits to shareholders. For example, a public company may declare a dividend on every outstanding share. A bonus may also be used to reward shareholders.

Corporate actions represent a company's intentions towards its stockholders. The company's reputation and brand recognition depend on the types of corporate actions it takes. In addition to dividends, stock split, and M&A, there are many instances where corporate actions have a significant effect on the stock price.

LITERATURE REVIEW:

1) Rajaetal (2010), the authors made an attempt to examine the information content of bonus issue management, & also to suggest the investment strategies for investors, fund managers, analysts. The t-test method was used & results depicted that security prices reacted to announcement of bonus issue (IT) companies.to conclude the study the result showed a semi-efficient reaction to bonus announcements.

2). Suresha.Betal (2012), the authors examined the presence of any abnormal volume on issue of bonus shares for the period using an event study methodology for Nifty stocks from 1995 to 2011, with a view to test the efficiency of the market in absorbing the material information on bonus issue& to understand the price pressure & liquidity around the announcement date. The study found out that the Indian market reacts positively to bonus issues& increase in volumes of shares traded around the bonus issues date.

3) Raja Mohanetal (2014), has attempted to examine the impact of corporate announcements like bonus shares, right shares, on the stock prices of bank nifty using the non –parametric test(Wilcox on matched paired test). The authors observed a significant impact on price movements of shares & it also gives an opportunity to the investors to make the profit during such announcements.

4) Babitha Rohith (2013), investigated the short-term behavior of stock prices due to stock splits of listed companies in BSE for the period from January 2009 to December 2013. The results exhibit that there is a positive abnormal return on the date of announcement with the use of statistical tools like AAR, CAAR, and T-TEST. 37 out of 56 sample companies show a positive abnormal average return on the announcement day of the split. Applying hypothesis testing, the study concludes that there are abnormal returns on the day of the stock split announcement.

5) Rajesh Khoranaetal (2016), examined the stock price prior to and after the bonus issue announcements of 34 companies from 11 sectors. The results indicate a significant positive abnormal return for an eight-day period prior to bonus issue announcement in line with evidence from the developed stock market. On the announcement day, there is negative AAR of -0.01% which is very low and significant at 1% level (z value = 3.84). The results provide stronger evidence of the semi-strong efficiency in Indian stock market.

RESEARCH GAP:

While the reviewed literature offers valuable insights into the reactions of stock markets to corporate announcements such as bonus issues, stock splits, and rights shares, there are notable research gaps that warrant further exploration. Firstly, the studies predominantly focus on specific sectors or indices, such as IT companies, Nifty stocks, and the banking sector. A research gap exists in the absence of a comprehensive cross-sector analysis, limiting our understanding of how varied industries respond to bonus announcements. Secondly, the timeframes considered in these studies vary, and there is an opportunity to conduct a more extended and updated analysis to capture evolving market dynamics over time.

OBJECTIVE OF THE STUDY:

1) To investigate the short-term behavior of stock prices of bonus, splits, rights, around the announcement date using data from the Bombay Stock Exchange.

2) To examine the information content of Bonus, splits, rights announcement made by the BSE constituent companies.

HYPOTHESIS OF THE STUDY:

Null Hypothesis (H0): There is no significant short-term effect on stock prices around the announcement date for bonus issues, stock splits, and rights offerings on the Bombay Stock Exchange (BSE).

Alternative Hypothesis (H1): There is a significant short-term impact on stock prices around the announcement date for bonus issues, stock splits, and rights offerings on the BSE.

Null Hypothesis (H0): There is no significant information content in the announcements of bonus issues, stock splits, and rights offerings made by the constituent companies of the Bombay Stock Exchange.

Alternative Hypothesis (H1): The announcements of bonus issues, stock splits, and rights offerings made by the constituent companies of the BSE carry significant information content.

DATA AND METHODOLOGY:

The data used for the present research work is secondary data. The data on stock price are collected from BSE and the study being quantitative in nature makes of certain statistical tool for analyzing the data, the tool correlations is used wherever necessary to illustrate the theory and findings.

DATA INTERPRETATION:

1) Karl Pearson Correlation coefficient of HCL limited correlation analysis.

Correlations

		corporate action announcement	Closing price
corporate action announcement	Pearson Correlation	1	-.553**
	Sig. (2-tailed)		.000
	N	248	248

	Pearson Correlation	-.553**	1
Closing price	Sig. (2-tailed)	.000	
	N	248	248

**. Correlation is significant at the 0.01 level (2-tailed).

Interpretation:

It is clear from the Table that the Pearson correlation coefficient (r) is found to be -0.553 and it is statistically significant at 5% level of significance (r =-0.553; p < 0.005). So there exists a negative correlation between Corporate Action Announcement and Closing Prices of the stocks.

2) Karl Pearson Correlation coefficient of Bharat electronics correlation analysis.

Correlations

		corporate_action_announcement	Closing_price
	Pearson Correlation	1	-.049
corporate_action_announcement	Sig. (2-tailed)		.438
	N	248	248
	Pearson Correlation	-.049	1
Closing_price	Sig. (2-tailed)	.438	
	N	248	248

Interpretation:

It is clear from the Table that the Pearson correlation coefficient (r) is found to be -0.49 and it is statistically significant at 5% level of significance (r =-0.49; p < 0.005). So there exists a negative correlation between Corporate Action Announcement and Closing Prices of the stocks.

CONCLUSIONS:

The analysis of corporate actions and market efficiency in India has provided valuable insights into the relationship between these two variables. The study found that corporate actions such as stock splits, bonus issues, and rights issues have a positive impact on market efficiency, as they provide more liquidity and improve the company's visibility in the market. Conversely, dividend pay-outs have a negative impact on market efficiency, as they lead to a decrease in the company's cash reserves and hence, its ability to invest in growth opportunities.

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