



Effect on Share Prices in the Indian Stock Market from Corporate Actions

Surya P

Department of Commerce (PG), Kristu Jayanti College, Bengaluru

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ABSTRACT:

Share price fluctuations are mostly caused by "Corporate Actions" taken by companies. These business decisions could have an impact on shareholders. Shareholders may see the company's conduct in a favorable or bad light. Investors assess a business's prospects for success in the future by looking at its corporate behavior. Based on this choice, investors buy or sell securities. Companies decide what constitutes a corporate action, including splits, new securities issued by issuers, rights, dividends, interest, and bonus shares. Corporate actions are crucial for all businesses. The purpose of this research is to ascertain whether or not business actions impact share price. This study will be very helpful to investors because it will enable them to comprehend changes in market movement and company share prices during announcements of dividends, stock splits, bonuses, rights issues, and buybacks. This understanding will enable investors to make well-informed decisions about their portfolio investments.

Keywords: inflation, split, dividend, and corporate action

INTRODUCTION:

Securities are more than just a passive investment token for people who engage in stock market securities. The foundation of corporate action is the ownership of individual investment units. Corporate announcements, investor activity, and share prices all fluctuate greatly. When corporations release important statements on a regular basis that contain both positive and negative information, the share prices reflect this. When a corporation releases positive news, stock prices rise; conversely, when the company releases negative news, stock prices fall. Depending on whether the information is positive or bad, the investor may respond to this fact in a positive or negative way. Consequently, the market's reactions imply that all investors talk about the known information right away, and this is reflected in the price of shares on the stock market. A few examples of events that affect the price of securities are strikes, lockouts, joint venture agreements, new product launches, financial reports (quarterly and annual), press releases, dividend declarations (including interim dividends), results of board of directors meetings and annual general meetings, rights issues, bonus issues, equity share allotments (including shares under the employee stock option scheme), amalgamations, acquisitions, buyback offers, and share sales. The information contained in some of these company announcements is probably what will influence share price fluctuations the most. Owners of common stock have the following rights: they can vote on board elections, engage in the issuance of new shares (known as a "right issue"), receive the residual assets of the firm during a liquidation, and vote on corporate activities that need shareholder approval. Therefore, ownership of shares entails benefits and rules to protect each share's rights. There would be several forms of corporate activity depending on how it is defined. One definition of "corporate action" states that it is "an event initiated by a company that affects its share." There are financial consequences for two of the four corporate activities selected as the events, and there are strategic consequences for the other two. It is clear that while information about dividends and bonus issues has financial ramifications, information about the stock split and merger has strategic ramifications for shareholders. In summary, the sampling technique used to choose the four events for the study was expanded by including events with strategic and financial aspects.

REVIEW OF LITERATURE:

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 analysed 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.

.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.

OBJECTIVES OF THE STUDY:

1. To evaluate the effect on share prices of corporate action announcements
2. To investigate the possibility of any unusual returns following the notification of the corporate action.

RESEARCH METHODOLOGY:

A Study Hypothesis In order to investigate the effect of corporate action on the stock prices of particular companies, the following null hypotheses are examined.

1. Corporate actions have no effect on the price of shares.
2. The returns surrounding the corporate action announcement are normal.

B. Data and Sources of Data

In this study the daily stock prices for 3 months 2 companies have been randomly selected from BSE. The corporate action announcements listed below were made by the companies.

S.NO.	NAME OF THE COMPANY	CORPORATE ACTION
1	KPI GREEN	BONUS
2	TATA STEEL	SPLIT

DATA ANALYSIS AND INTERPRETATION

TATA STEEL:

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1721.692	Prob. F(2,225)	0.0000
Obs*R-squared	214.9543	Prob. Chi-Square(2)	0.0000

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 03/07/23 Time: 10:55

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

Included observations: 229

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CORPORATE_ACTION_ANNOUNCEMENT	2.068276	3.545947	0.583279	0.5603
C	-1.350210	2.849606	-0.473823	0.6361
RESID(-1)	0.988600	0.066659	14.83075	0.0000
RESID(-2)	-0.020351	0.066671	-0.305252	0.7605

R-squared	0.938665	Mean dependent var	-1.82E-13
Adjusted R-squared	0.937847	S.D. dependent var	102.7968
S.E. of regression	25.62771	Akaike info criterion	9.342538
Sum squared resid	147775.3	Schwarz criterion	9.402516
Log likelihood	-1065.721	Hannan-Quinn criter.	9.366734
F-statistic	1147.795	Durbin-Watson stat	1.608142
Prob(F-statistic)	0.000000		

Dependent Variable: CLOSE_PRICE
 Method: Least Squares
 Date: 03/07/23 Time: 10:53
 Sample: 4/01/2022 3/01/2023
 Included observations: 229

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CORPORATE_ACTION_ANNOUNCEMENT	-966.2466	14.23897	-67.85931	0.0000
C	1075.043	11.44700	93.91485	0.0000
R-squared	0.953020	Mean dependent var		450.5694
Adjusted R-squared	0.952813	S.D. dependent var		474.2694
S.E. of regression	103.0230	Akaike info criterion		12.11648
Sum squared resid	2409318.	Schwarz criterion		12.14647
Log likelihood	-1385.337	Hannan-Quinn criter.		12.12858
F-statistic	4604.886	Durbin-Watson stat		0.038304
Prob(F-statistic)	0.000000			

Interpretation:

It is obvious from the Table that the d value is about 0.0384, 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.

KPI GREEN

Breusch-Godfrey Serial Correlation LM Test:
 Null hypothesis: No serial correlation at up to 2 lags

F-statistic	2250.667	Prob. F(2,225)	0.0000
Obs*R-squared	218.0983	Prob. Chi-Square(2)	0.0000

Test Equation:
 Dependent Variable: RESID
 Method: Least Squares
 Date: 03/07/23 Time: 10:59
 Sample: 4/01/2022 3/01/2023
 Included observations: 229
 Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CORPORATE_ACTION_ANNOUNCEMENT	-8.257155	5.832427	-1.415732	0.1582
C	1.213297	3.093056	0.392265	0.6952
RESID(-1)	0.960367	0.066645	14.41029	0.0000
RESID(-2)	0.020799	0.066993	0.310457	0.7565
R-squared	0.952394	Mean dependent var		1.04E-14
Adjusted R-squared	0.951760	S.D. dependent var		180.2754
S.E. of regression	39.59513	Akaike info criterion		10.21260
Sum squared resid	352749.2	Schwarz criterion		10.27258
Log likelihood	-1165.343	Hannan-Quinn criter.		10.23680
F-statistic	1500.445	Durbin-Watson stat		1.928230
Prob(F-statistic)	0.000000			

Dependent Variable: CLOSE_PRICE
 Method: Least Squares
 Date: 03/07/23 Time: 10:58
 Sample: 4/01/2022 3/01/2023
 Included observations: 229

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CORPORATE_ACTION_ANNOUNCEMENT	-15.04268	26.48074	-0.568061	0.5706
C	704.4927	14.10812	49.93526	0.0000
R-squared	0.001420	Mean dependent var		700.2229
Adjusted R-squared	-0.002979	S.D. dependent var		180.4035
S.E. of regression	180.6721	Akaike info criterion		13.23994
Sum squared resid	7409825.	Schwarz criterion		13.26993
Log likelihood	-1513.973	Hannan-Quinn criter.		13.25204
F-statistic	0.322693	Durbin-Watson stat		0.044899
Prob(F-statistic)	0.570555			

It is obvious from the Table that the d value is about 0.044, 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.

CONCLUSION

Overall, the analysis shows that the corporate action announcements impact the share prices of the companies. There is both positive and negative impact of corporate action announcements towards the share price.

Through correlation we concluded that prices of stocks and corporate actions have linear association between them, thus the prices of shares are impacted by the corporate action announcements, which impacts both positively and negatively. And through autocorrelation we measured the relationship between the variables i.e., the corporate actions announcements and stock prices of the company.

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