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Corporate Action's Effect on Indian Stock Market Share Prices

S Sruti[1], Dr. Sakthivel R[2]

[1]M.COM FA Student, Kristu Jayanti College (Autonomous), Bengaluru, sruti.mns@gmail.com
[2]Assistant Professor, Kristu Jayanti College (Autonomous), Bengaluru.

ABSTRACT:

The stock markets' share prices fluctuate daily. There are many reasons for these fluctuations.

Companies' "Corporate Actions" are one of the main factors behind share price swings. These corporate actions may influence shareholders. The company's actions can be viewed positively or negatively by shareholders. Investors evaluate a company's potential for success based on its corporate actions. Investors purchase or sell securities based on this decision. Interest, dividends, rights, new securities issued by issuers, bonus shares, splits, and other similar corporate actions are company decisions. Corporate actions are necessary for all companies. In this research, it will be tested whether corporate actions impact the share price or not. Investors will gain a lot from this research since they will be in a position to comprehend movements in company share prices and market movement when there are dividends, stock splits, bonuses, rights issues, and buyback announcements, and thus they will be able to make sound decisions regarding their portfolio investments at the appropriate time.

Keywords: Corporate Action, dividend, split, inflation

INTRODUCTION:

For individuals engaged in stock market securities, these assets represent more than mere passive investments. The ownership of individual shares serves as a foundation for corporate actions. Variations in share prices and investor behavior are significant and influenced by corporate announcements. Companies that frequently release important news—both positive and negative—see their share prices reflect these changes. Positive announcements typically lead to an increase in stock prices, while negative news tends to cause declines. Investors may respond favorably or unfavorably based on the nature of the information presented. Consequently, market reactions indicate that investors quickly discuss and assimilate available information, which is then mirrored in stock prices. Events like strikes, lockouts, joint ventures, new product releases, financial statements, press announcements, dividend announcements, results of board meetings, rights issues, bonus issues, equity share allotments, mergers and acquisitions, buyback offers, and sales of shares all affect security prices. Among these announcements, certain disclosures are likely to have the most significant effect on share price fluctuations. Common stockholders possess the right to vote on corporate matters requiring shareholder consent, participate in rights issues, claim remaining assets during liquidation, and vote in board elections. Thus, ownership of shares comes with specific rights and protections.

The term "corporate action" is described as "an event initiated by a company that affects its shares." Among the four corporate actions selected, two have financial implications, while the other two are strategic. The information surrounding stock splits and mergers carries strategic importance for shareholders, whereas dividend and bonus issue details have financial relevance. In essence, the incorporation of events with both financial and strategic dimensions has widened the scope of the sampling for this analysis.

REVIEW OF LITERATURE:

Rajesh Khorana et al (2016), investigated the pre- and post-bonus issue announcements of 34 companies across 11 sectors. The findings show a strong positive abnormal return eight days prior to the bonus issue announcement consistent with developed stock market evidence. On the announcement date, there was a negative AAR of -0.01% which is extremely low and significant at 1% level (z value = 3.84). The findings give greater evidence of the semi-strong efficiency of the Indian stock market.

Dr.Kammili Kamalakara Rao (2014) highlighted corporate actions and how they affect Indian stock market prices. He conducted an analysis of how the announcement of business activities, such as stock splits, consolidations, and buybacks, affected the volume of shares traded on stock exchanges. According to the study's findings, business behavior significantly affects stock market prices.

Suresha. B et al (2012), In order to assess the market's ability to assimilate important information regarding bonus issues and to comprehend the price pressure and liquidity surrounding the announcement date, the authors used an event study methodology to look for any unusual volume on bonus share

issuance for the period 1995–2011 for Nifty stocks. According to the report, bonus issues and increases in share volumes traded around the bonus issue date have a beneficial impact on the Indian market.

Garcia de Andoin and Bacon (2009) examined the effect of stock split announcements on the share prices of NASDAQ-listed companies. In their research, they found that "firms' public stock split announcements did not affect the stock price on the announcement day.".

Pavabutr and Sirodom (2008) investigated the effects of price and liquidity on Thailand's stock exchange. They established that stock splits could have a positive effect on the stock price via the diminishment of trade frictions such as bid-ask spreads and measures of price impact.

STATEMENT OF THE PROBLEM

The impact of corporate actions on stock prices in the Indian market is yet to be comprehensively understood. Despite their significant potential to affect market trends, there is a notable absence of clarity regarding the impact of events such as dividends, buybacks, and bonus issues on stock prices in both the short and long run. Moreover, investor reactions and perceptions towards these actions differ across sectors, with minimal research available on comparative responses among industries or the effects during market fluctuations. This research seeks to address these knowledge gaps by determining the short-term and long-term effects of corporate actions on various industries in India's equity markets.

OBJECTIVES OF THE STUDY:

1. To evaluate how corporate activity announcements affect stock prices

2. To investigate if the corporate action announcement is associated with any unusual returns.

RESEARCH METHODOLOGY:

The hypothesis of the Study:

To investigate how corporate conduct affects 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 corporate action announcement is not associated with any unusual returns.

Data and Sources of Data

Two firms' daily stock prices over a three-month period were chosen at random from the BSE for this investigation. The companies released the following corporate action announcements.

S.NO.	NAME OF THE COMPANY	CORPORATE ACTION	DATE OF OCCURRENCE
1	KPI GREEN	BONUS	FEBRUARY 15,2024
2	TATA STEEL	SPLIT	JULY 28,2022

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

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

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:

The analysis initiates with a Breusch-Godfrey Serial Correlation LM test, which indicates a significant presence of serial correlation in the residuals (p-value = 0.0000), leading to the rejection of the null hypothesis that posits no serial correlation. The test equation, where RESID serves as the dependent variable, demonstrates that the residual from the previous period (RESID (-1)) exerts a strong, positive, and statistically significant effect (p-value = 0.0000) on the current residual, reinforcing the existence of serial correlation; however, corporate action announcements and the constant term do not show significance in this context. The R-squared value of 0.938665 suggests that a considerable portion of the variance in the residuals is accounted for. The Durbin-Watson statistic of 1.608142 does not provide strong evidence of autocorrelation. In examining the factors influencing the CLOSE_PRICE, corporate action announcements reveal a statistically significant negative correlation (p-value = 0.0000), indicating a reduction in the closing price by 966.2466 units following such announcements. The constant term is also significant. The model accounts for a substantial 95.30% of the variance in the closing price (R-squared = 0.953020). Nevertheless, a very low Durbin-Watson statistic of 0.038304 points to a strong positive autocorrelation in the residuals of this model. In summary, while corporate action announcements have a significant impact on Tata Steel's closing price, the issues related to serial correlation must be addressed to enhance the model's reliability.

The table makes it clear that the d value is approximately 0.0384, which is less than 2 but near 0. The provided time series data shows indications of positive autocorrelation because the d value is closer to 0.

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
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
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		

INTERPRETATION

The regression analysis aimed at evaluating the effects of corporate action announcements on closing prices has uncovered significant statistical shortcomings within the model. The Breusch-Godfrey test demonstrates a notable presence of serial correlation in the model's residuals, which compromises the integrity of the Ordinary Least Squares (OLS) assumptions. The test results, featuring a high F-statistic of 2250.667 and an Obs*R-squared value of 218.0983, along with p-values of 0.0000, compel the rejection of the null hypothesis that suggests no serial correlation exists. Additionally, the Durbin-Watson statistic, which is close to 0, further confirms the existence of autocorrelation. Furthermore, the original regression shows an alarmingly low R-squared value of 0.001420, indicating the model's failure to effectively account for variations in closing prices. The coefficient for the corporate action announcement variable (-15.04268) is not statistically significant (p-value = 0.5706), which prevents drawing any dependable conclusions regarding its effect on closing prices. Given the model's misspecification and the identified serial correlation, it is essential to adopt a revised methodology that incorporates strategies to mitigate autocorrelation (such as Newey-West standard errors, GLS, or ARIMAX models) and to introduce additional explanatory variables to improve the model's explanatory capacity and statistical robustness.

CONCLUSION

The findings of the analysis reveal that corporate action announcements have a notable effect on the share prices of companies, exhibiting both positive and negative influences. By examining the correlation, we established a linear relationship between stock prices and corporate actions, confirming that share prices are indeed affected by these announcements in varying directions. Furthermore, we employed autocorrelation to analyze the connection between corporate action announcements and the stock prices of the respective companies.

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