

# A study on influence of corporate actions on security price with reference to BSE selected Companies

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## ABSTRACT

The share price fluctuation in the market can affect the economy of the nation. A fluctuation occurs in the price level of stock because of changes in various factors like external and internal environment. 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. Above results suggest a strong market inefficiency post corporate actions events. Applying this insight to a set of generalized trading rules for market-hedged short-term trades yields profitable results for almost all strategies. The review of corporate announcements, share price movements and investor behavior have been presented.

**Keywords :** Merger, dividend, split, inflation, fluctuation

## I. INTRODUCTION

The financial sector in India has undergone many reforms, particularly in the capital market segment, since 1990s. A functioning stock market is an essential component in a competitive economy, as it provides a mechanism for allocating the economy capital stock. In an ideal situation, the stock market will maximize the total utility of the economy. The share price fluctuations in the market can affect the economy of the nation. A

fluctuation occurs in the price level of stock because of changes in several factors, like economic, social and political. Apart from these factors information released by the corporate bodies causes volatile nature in share prices. However, the corporate announcement has considerable impact on the share price movements. Moreover, the individual investors change their investment pattern depending upon the release of information by the corporate bodies. In other words, the corporate announcements reflect wide variations in the share prices and investors' behavioral pattern. This fact is brought into the companies regularly making significant announcement with positive and negative information which will reflect in their share prices. When corporate announcements contain good news, the stock prices go up, whereas announcements containing bad news push the stock price down. Given this reality, the investor can react positively or negatively depending upon whether it is positive or negative information. Hence the market reactions indicate that the known information is immediately discussed by all investors and it reflects in share prices in the stock market. The information that affects the prices of securities are, strikes, lockouts, joint venture agreements, launching of new products, financial reports include annual and quarterly releases, press releases, declaration of dividend including interim dividend, outcome of board of directors meeting, outcome of annual general meeting, rights issue, bonus issue, allotment of equity shares including allotment of shares under employee stock option scheme, amalgamation, acquisition, buy-back offer and sale of shares etc. Among these various corporate announcements giving information, some are likely to be having most significant impact on the share price fluctuation.

### III. OBJECTIVES OF THE STUDY

1. To study the various important corporate announcement
2. To assess the impact of corporate action announcement on share prices.
3. To examine whether there is any abnormal returns around the corporate action announcement.
4. To support informed investors in understanding the price pressure and liquidity prevailing around the corporate action announcement date.
5. To identify the time window (before and after announcement) that maximizes the return for shareholders.

### IV. REVIEW OF LITERATURE

An attempt is made to present the literature related to the topic of research. Review of literature which deals with the significance of corporate announcements and its impact on share price behavior in Bombay Stock Exchange (BSE) listed companies. In this section, a brief review of corporate announcements, share price movements and investor behavior have been presented. The review helped to shape the study and identify the research gap.

#### TYPES OF CORPORATE ANNOUNCEMENTS

1. Financial Results Announcement
2. Dividend Announcement
3. Bonus and Rights Issue Announcement
4. Merger and Acquisition Announcement

5. Equity Issue Announcement
6. Press/Media Release Announcement

#### **PURPOSE OF CORPORATE ACTIONS**

1. **Corporate Restructuring** : It is done with the intent to increase company's profitability. Some of the common examples include spinoffs, mergers and acquisition.
2. **Impacting share price** :The liquidity of the stock is greatly impacted if the stock price is too high or too low. If the stock price is too high, there is a big question mark on the affordability to all investor. On the other hand, if the price is too low, it may be looked upon as a bad investment. Corporate actions like stock splits, reverse stock split or buyback are few examples to influence the stock price.
3. **Distributing profit to shareholders** : The dividend distributed could be in the form of cash or stock dividend. In case of cash dividend, the company declares a dividend to be paid on each outstanding share. However, bonus issue involves an issue of additional shares to shareholders instead of cash.

#### **V. NEED FOR THE STUDY**

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.

#### **VI. SCOPE OF THE STUDY**

The notion that the corporate announcement might have strong implications on share prices and investor behavior is in general accepted by practitioners. However, this belief is usually founded on observations related to the most visible corporate announcement types. For example, significant share price volatility following announcements of mergers or takeovers is well documented in both the academic literature and popular press. The aim of this study is to consider the broader range of corporate announcement types, and to seek evidence on whether the share price and trading activity effects can be observed in this wider spectrum, and whether these effects go beyond the announcement date.

For each corporate announcement type, the analysis is based on corporate announcement events for three year. The study was restricted to corporate announcement by the Bombay Stock Exchange listed companies during the period of study. Further, the study did not cover the remaining information in the stock market.

#### **VII. SIGNIFICANCE/IMPORTANCE OF THE 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 investors.

### VIII. QUESTIONS

1. Do signaling actions of firms, specifically announcements made via the securities market carry any new information to the stock market?
2. What categories or classes of actions have the most significant impact on the stock market performance of the firms?
3. Is there a relationship between the intrinsic nature of the announcements and the reaction it elicits from the stock market?

### IX. RESEARCH DESIGN

This study follows a deductive approach, as the underlying theory will serve as the basis for data collection. Consequently, a quantitative approach will be used for the empirical analysis. Being a non-experimental quantitative study, the major steps in the study are:

1. Exploring the background theory
2. Data collection and empirical analysis
3. Discussions of findings and results

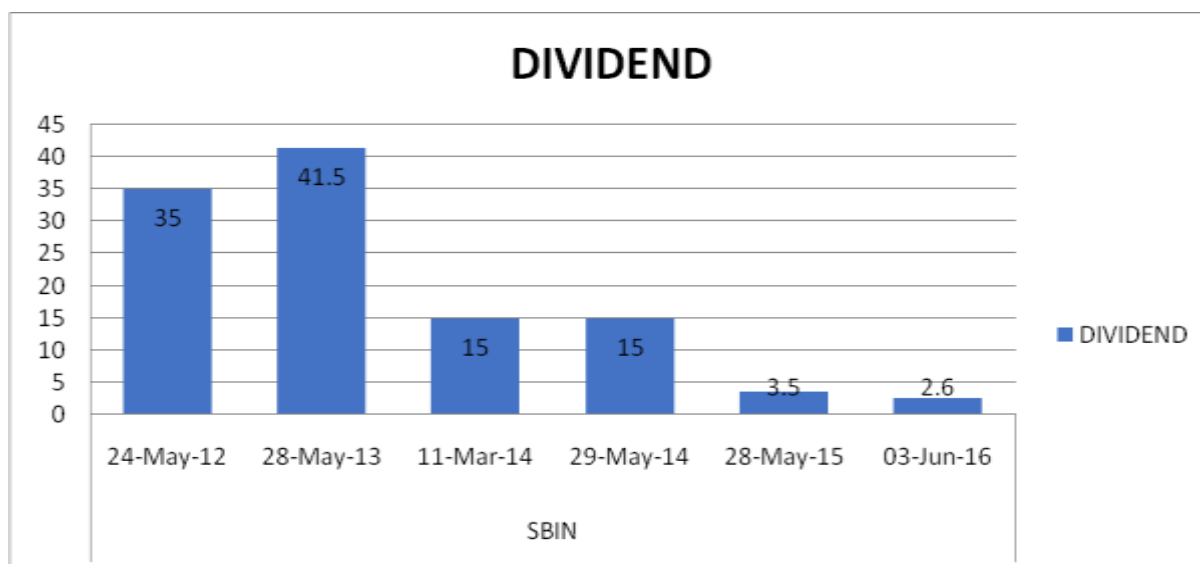
First, a comprehensive and exhaustive study of the theoretical backgrounds that loosely act as the concerns for the eventual data collection will be done in order to link the theoretical background to the research being done. Secondly, the required data (both the announcements and the stock market returns) will be collected and empirical analysis of the data will be done using the quantitative event study analysis. Finally, based on the results of the event study, detailed analyses will be carried out to evaluate the impact of the signaling actions on the returns before making conclusions.

### DATA ANALYSIS

Security Code	Security Name	Ex Date	DIVIDEND	Record Date	BC Start Date	BC End Date	ND Start Date	ND End Date	Actual Payment Date
<a href="#">500112</a>	SBIN	24-May-12	35	-	26-May-12	31-May-12	21-May-12	24-May-12	-
<a href="#">500112</a>		28-May-13	41.5	-	30-May-13	03-Jun-13	23-May-13	29-May-13	17-Jun-13
<a href="#">500112</a>		11-	15	-	13-	17-	06-	12-	02-Apr-



		Mar-14			Mar-14	Mar-14	Mar-14	Mar-14	14
<a href="#">500112</a>		29-May-14	15	-	31-May-14	04-Jun-14	26-May-14	29-May-14	19-Jun-14
<a href="#">500112</a>		28-May-15	3.5	-	30-May-15	03-Jun-15	27-May-15	28-May-15	18-Jun-15
<a href="#">500112</a>		03-Jun-16	2.6	-	07-Jun-16	11-Jun-16	31-May-16	06-Jun-16	-

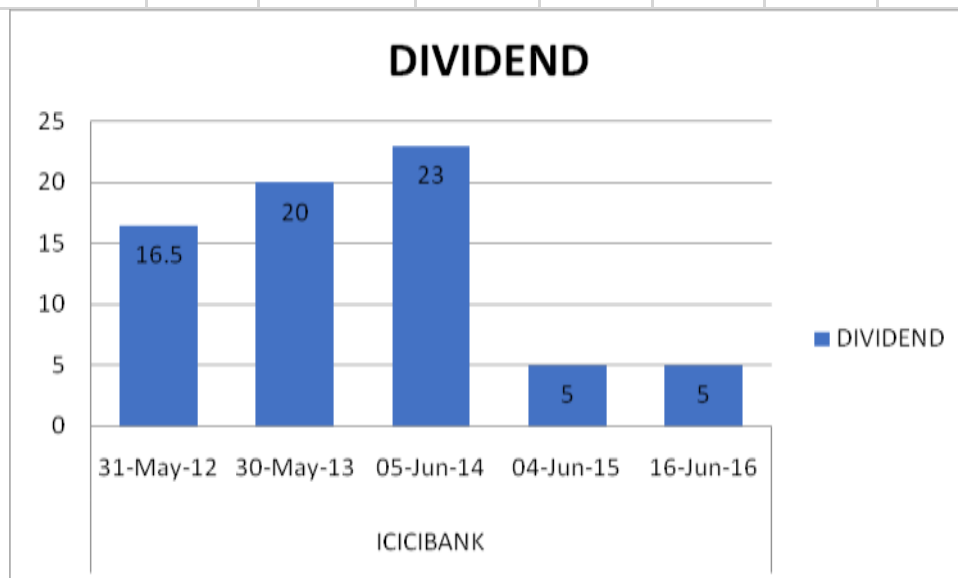


INTERPRETATION

Dividend for SBI is not Constant .It is Fluctuating and has been Decreased Drastically from 35 to 2.6.

ICICI

Security Code	Security Name	Ex Date	DIVIDEND	Record Date	BC Start Date	BC End Date	ND Start Date	ND End Date	Actual Payment Date
<a href="#">532174</a>	ICICIBANK	31-May-12	16.5	-	02-Jun-12	25-Jun-12	28-May-12	31-May-12	-
<a href="#">532174</a>		30-May-13	20	-	01-Jun-13	24-Jun-13	27-May-13	30-May-13	25-Jun-13
<a href="#">532174</a>		05-Jun-14	23	-	07-Jun-14	30-Jun-14	02-Jun-14	05-Jun-14	01-Jul-14
<a href="#">532174</a>		04-Jun-15	5	-	06-Jun-15	29-Jun-15	01-Jun-15	04-Jun-15	30-Jun-15
<a href="#">532174</a>		16-Jun-16	5	-	18-Jun-16	11-Jul-16	13-Jun-16	16-Jun-16	-



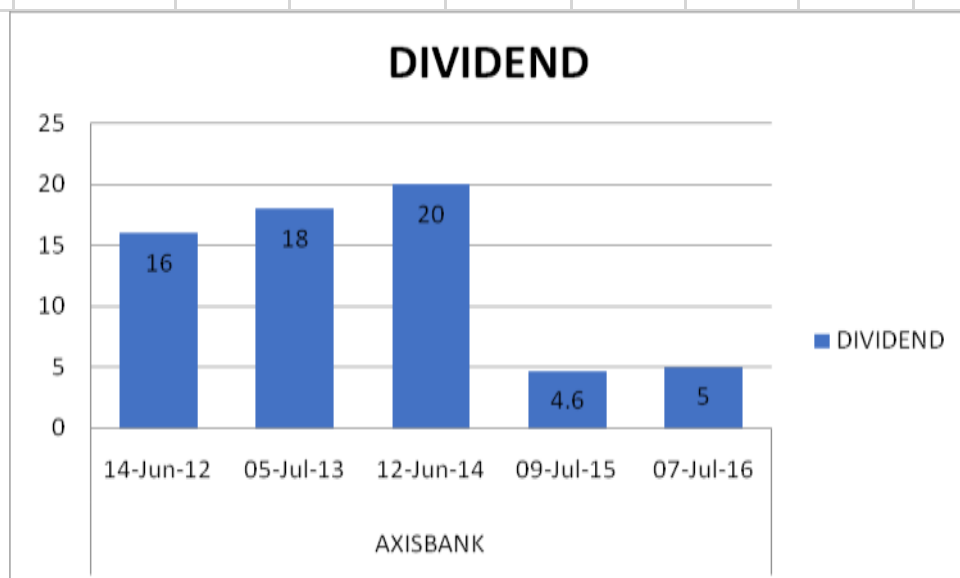
Interpretation:

Dividend for ICICI Bank had been Increased for the first three years and for the last year it has been paying Constantly.



AXIS

urity Code	Security Name	Ex Date	DIVIDEND	Record Date	BC Start Date	BC End Date	ND Start Date	ND End Date	Actual Payment Date
<a href="#">532215</a>	AXISBANK	14-Jun-12	16	-	16-Jun-12	22-Jun-12	11-Jun-12	14-Jun-12	-
<a href="#">532215</a>		05-Jul-13	18	-	09-Jul-13	19-Jul-13	02-Jul-13	08-Jul-13	26-Jul-13
<a href="#">532215</a>		12-Jun-14	20	-	16-Jun-14	27-Jun-14	09-Jun-14	13-Jun-14	08-Jul-14
<a href="#">532215</a>		09-Jul-15	4.6	-	13-Jul-15	24-Jul-15	06-Jul-15	10-Jul-15	06-Aug-15
<a href="#">532215</a>		07-Jul-16	5	-	09-Jul-16	22-Jul-16	01-Jul-16	07-Jul-16	-



INTERPRETATION:

Dividend for AXIS is Increasing Though it has reduced to 4.6 in 2015, it has increased in next which is good Sign for better Payment in Next Years .

X. CONCLUSION

Based upon this study it can be concluded that dividend prices are fluctuating it will taking either negative results or positive results. The analysis of above three companies dividend issue prices are playing different actions like SBI bank prices are not constant it is decreased drastically, the prices of ICICI bank had been

increased first three years lastly the prices are constant there is no change, and AXIS Bank dividend prices are increasing which is good sign for payment in next year

Issue of dividend result in Cash out flow to the company. The dividend prices are affected by the internal and external factors of the company. Dividend is distributed on per share basis. Dividends are always issued in respect to the <sub>face</sub> value of the share.

## **XI. RELATED WORKS**

Prior research examines mostly the effects of role of corporate actions related changes in and around. This paper, however, provides an analysis of the determinants of review helpfulness. This study examines the effects of review characteristics, product type, and reviewer characteristics on perceived review helpfulness.

- Journal Name : Award Best Paper by NSE India
- Title : Mergers and Acquisitions: A Study of Short-term Abnormal Returns, Long-term Financial Performance and Corporate Governance
- Author : Dr. Neelam Rani
  
- Journal Name : Award Best Paper by NSE India
- Title : Stock Splits: Reasons and valuation effects
- Author : Saraswathi Thirunellai
  
- Journal Name : Journal of Accounting Research
- Title : Trading Volume and Price Reactions to Public Announcements
- Author : Oliver Kim and Roberte E.Verrecha
  
- Journal Name : International Journal
- Title : Book Built Initial Public Offerings in India: Determinants of Pricing, Subscription Patterns of Investors and Impact of Regulation
- Author : Dr. Alok Pande
  
- Journal Name : BIS WORKING PAPERs No. 71 – June 1999
- Title : The Term Structure Of Announcement Effects
- Author : Michael J Fleming and Eli M Remolona