Corporate Actions and Stock Prices – A Study with Reference to Select Industries

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ABSTRACT

Corporate events affect the stock market in many ways, and it has been noted that study on stock price movement has drawn interest from a number of scholars. Consequently, the goal of this study is to further our understanding of how Indian share prices behave with respect to corporate actions. The study is based on secondary data. Businesses that are listed on the BSE were chosen at random from a list of businesses that have recently made announcements about their corporate actions. When analyzing data, event research technique is employed to determine the impact of a given event, how soon its impacts are reflected in asset values, and the impact of particular events, such as dividend and bonus announcements. In this research, the pre-announcement period (- 15 to -1) and the post-announcement period (1 to 15) are used to examine the impact surrounding the date of the corporate action announcement. Overall study demonstrates that the market responds favorably when bonuses and dividends are announced. Investors can gain a great deal from this study by understanding how market movement and company share price changes occur during bonus and dividend announcements. This knowledge will help investors make wise portfolio investment decisions at the appropriate times.

Keywords: Stock prices, Bonus, Dividend, Announcements.

INTRODUCTION

Stock prices are significantly impacted by corporate actions like dividends and bonuses, which can affect investor perceptions and market activity. A corporation distributes a portion of its earnings to shareholders when it announces a dividend, which frequently boosts the market. Demand for the stock rises as a result of investors' tendency to see dividends as an indication of the company's stability and sound financial standing. Bonus issues are free-of-charge distributions of extra shares to present owners in proportion to their holdings. The market capitalization of the company remains unchanged despite this action increasing the number of outstanding shares. Because the same market capitalization is now distributed over a greater number of shares, a bonus issue immediately results in a decrease in the stock price per share. The stock is now more reasonably priced, which may attract more investors. Companies employ dividends and bonuses as tactical tools to show their strength in the financial department and to reward shareholders. Bonus issues can increase the stock's liquidity and marketability while dividends give shareholders direct income, increasing the stock's attractiveness as an income-generating investment.

REVIEW OF LITERATURE

Dr. Jagrutiben, G. Raj Dr. Shraddhaben G. Raj (2024) carried a research on "Dividend Announcement and Stock Prices: An Analysis of Selected IT Companies in India". The aim of the study was to identify the impact of dividend announcements on share prices of selected IT companies listed in NSE in India from the years 2016-17 to 2018-19. The study revealed that there is significant difference in pre and post-announcement periods in the year 2017-18 and there is insignificant difference in the years 2016-17 and 2018-19.

Mallesha L, Archana H N (2023) conducted research on "Impact of dividend declarations on stock prices during covid-19 in India". The study aims at exploring the relationship between dividends and stock prices during the pandemic. The research was conducted on S&P BSE 100 companies listed on the Bombay Stock Exchange. The study revealed that dividend declarations do not significantly affect stock returns during a stressful pandemic.

M Mahirun, Arih Jannati, Andi Kushermanto, Titi Rahayu Prasetiani (2023) for their study on "Impact of dividend policy on stock prices" analyzed the research model by using dividend policy as an intervening variable on the effect of firm value and capital structure on firm value. The companies included in the research are taken from LQ45 index of the Indonesia Stock Exchange during the period 2012 - 2021. The results of the study concluded that dividend policy with the DPR indicator is not able to mediate funding policy and firm value in increasing stock prices.

Dharen Kumar Pandey, Vineeta Kumari and Brajesh Kumar Tiwari (2022). The study aims at examine the impacts of corporate announcements on stock returns during the pandemic stress. The Study revealed that the bonus announcement, ex-bonus and ex-split events led to positive significant abnormal returns on the event date while the rights issue and stock-split announcements failed to influence the stock returns.

Pandey, D.K. and Kumari, V. (2021a). The study aims to examine the impact of the Covid-19 outbreak on the global stock markets. It provides evidence for global stock market reactions to epidemics. The study concludes that the Covid-19 outbreak has significantly impacted the global stock markets with the Asian stock markets impacted the highest.

Ashraf, B.N. (2020) conducted a research titled "Stock markets' reaction to COVID-19: Cases or fatalities?" .The study was carried using daily COVID-19 confirmed cases and deaths and stock market returns data from 64 countries over the period January 22, 2020 to April 17, 2020. The study concludes that the stock markets responded negatively to the growth in COVID-19 confirmed cases.

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY:

1. To study the share price of select companies during the pre and post dividend announcement period.

2. To study the share price of select companies during the pre and post bonus announcement period.

HYPOTHESIS:

Null Hypothesis (H0): There is no difference in performance of stock prices before and after announcement.

Alternate Hypothesis (H1): There is difference in performance of stock prices before and after announcement.

SCOPE OF THE STUDY:

The study examines the corporate actions announced by different companies from 3 different sectors in the last 5 years & studies their impact by analyzing the trend of stock prices, impact of corporate action announcement.

SOURCES OF DATA:

The project is purely based on secondary data collected from various sources like NSE, BSE, IIFL finance, Investopedia, Equity Pandit etc.

STATISTICAL TECHNIQUES USED FOR DATA ANALYSIS:

1. Descriptive Statistics

2. T-Test

Table 1: Comparison of Dividend Announcement effect on share price of the companies in Pharmaceutical Industry:

T-Test: Paired Two Sample for Means	Torrent Pharmaceuticals Ltd		Zim Laboratories Ltd		Bajaj Healthcare ltd	
	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement
Mean	2554.1767	2628.6867	36.9427	34.8733	402.7500	472.2100
Observations	15	15	15	15	15	15
Pearson Correlation	0.470		-0.223		0.208	
df	14		14		14	
t Stat	-4.314		3.815		-9.378	
P(T<=t) one-tail	0.000356983		0.00094633		1.03E-07	
t Critical one-tail	1.76131		1.76131		1.76131	
P(T<=t) two-tail	0.000713965		0.00189266		2.06E-07	
t Critical two-tail	2.144787		2.144787		2.144787	

From table 1, we can interpret that the share prices of Torrent Pharmaceuticals and Bajaj Healthcare Ltd have significantly increased after the dividend announcement. While, the share price of Zim laboratories declined after the dividend is announced.

Table 2: Comparison of Dividend Announcement effect on share price of the companies in Infrastructure Industry:

T-Test: Paired Two Sample for Means	Rites Ltd		Ircon International Ltd		GPT Infraprojects Ltd	
	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement
Mean	699.8633	754.8400	111.7600	141.3233	70.1233	77.4967
Observations	15	15	15	15	15	15
Pearson Correlation	0.580		0.274		0.678	
df	14		14		14	
t Stat	-3.009		-10.459		-12.489	
P(T<=t) one-tail	0.004692825		2.67E-08		2.80E-09	
t Critical one-tail	1.76131		1.76131		1.76131	
P(T<=t) two-tail	0.009385651		5.34E-08		5.59E-09	
t Critical two-tail	2.144787		2.144787		2.144787	

From table 2, we can interpret that the share prices of all the three companies in Infrastructure Industry have inclined after the dividend is announced.

Table 3: Comparison of Dividend Announcement effect on share price of the companies in IT Industry:

T-Test: Paired Two Sample for Means	WIPRO Ltd		HCL Technologies		Sonata Software Ltd	
	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement
Mean	594.3333	581.2033	1179.7600	1128.5467	574.5013	659.1160
Observations	15	15	15	15	15	15
Pearson Correlation	-0.791		0.725		-0.390	
df	14		14		14	
t Stat	1.456		6.217		-7.770	
P(T<=t) one-tail	0.084		1.12461E-05		9.60E-07	
t Critical one-tail	1.76131		1.76131		1.76131	
P(T<=t) two-tail	0.167		2.24922E-05		1.92E-06	
t Critical two-tail	2.144787		2.144787		2.144787	

From table 3, we can interpret that the announcement of dividend had positive impact only on share price of Sonata Software Ltd.

Table 4: Comparison of Bonus Announcement effect on share price of the companies in Pharmaceutical Industry:

From table 4, we can interpret that the bonus announcement had resulted in decrease in share price of Zim

T-Test: Paired Two Sample for Means	Torrent Pharmaceuticals Ltd		Zim Laboratories Ltd		Bajaj Healthcare ltd	
	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement
Mean	1435.8033	1494.3433	111.4900	98.5033	226.0133	197.6667
Observations	15	15	15	15	15	15
Pearson Correlation	0.306		-0.658		-0.606	
df	14		14		14	
t Stat	-9.368		5.484		3.442	
P(T<=t) one-tail	1.04E-07		4.02851E-05		0.001982313	
t Critical one-tail	1.76131		1.76131		1.76131	
P(T<=t) two-tail	2.08E-07		8.05702E-05		0.003964626	
t Critical two-tail	2.144787		2.144787		2.144787	

Laboratories Ltd and Bajaj Healthcare ltd. While the announcement had positive impact on the share price of Torrent Pharmaceuticals Ltd.

Table 5: Comparison of Bonus Announcement effect on share price of the companies in Infrastructure Industry:

T-Test: Paired Two Sample for Means	Rites Ltd		Ircon International Ltd		GPT Infraprojects Ltd	
	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement
Mean	237.4873	228.4233	46.6593	48.2067	62.9647	60.0200
Observations	15	15	15	15	15	15
Pearson Correlation	-0.408		-0.359		-0.378	
df	14		14		14	
t Stat	3.676		-1.855		3.693	
P(T<=t) one-tail	0.001247707		0.042403906		0.001205524	
t Critical one-tail	1.76131		1.76131		1.76131	
P(T<=t) two-tail	0.002495414		0.084807812		0.002411047	
t Critical two-tail	2.144787		2.144787		2.144787	

From table 5, we can interpret that the announcement of bonus had positive impact only on Ircon International Ltd.

Table 6: Comparison of Bonus Announcement effect on share price of the companies in IT Industry:

T-Test: Paired Two Sample for Means	WIPRO Ltd		HCL Technologies		Sonata Software Ltd	
	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement	Before Dividend Announcement	After Dividend Announcement
Mean	246.3353	270.8907	539.4980	572.6260	687.4960	741.7000
Observations	15	15	15	15	15	15
Pearson Correlation	0.257		0.010		-0.754	
df	14		14		14	
t Stat	-10.765		-14.012		-3.740	
P(T<=t) one-tail	1.86E-08		6.24E-10		0.001097182	
t Critical one-tail	1.76131		1.76131		1.76131	
P(T<=t) two-tail	3.72E-08		1.25E-09		0.002194364	
t Critical two-tail	2.144787		2.144787		2.144787	

From table 6, we can interpret that the share prices of all the three companies in IT Industry have inclined after the bonus is announced.

FINDINGS:

- Announcement of dividend had negative effect on Zim laboratories and HCL Technologies stock prices.

- Dividend Announcement has shown positive effect on stock prices movement of all three companies under Infrastructure Industry chosen for analysis.

- Bonus announcement of HCL Technologies led to incline in the prices and Dividend announcement led HCL Technologies decline in the stock prices.

- Dividend and Bonus announcements had positive on stock prices of Sonata Software ltd during both the corporate actions.

- Announcement of bonus had positive effect on IT Industry stocks.

- Announcement of bonus had negative effect on stock prices of Zim Laboratories, Bajaj Healthcare Ltd, Rites Ltd and GPT Infraprojects Ltd.

- Dividend and bonus Announcements had positive impact on performance of stocks of Torrent Pharmaceuticals, Ircon International Ltd, Sonata Software Ltd.

CONCLUSION:

Overall analysis shows a greater number of profits can be earned during post announcement period in case of bonus issue and dividend as it is evident from Torrent Pharmaceuticals, Ircon International Ltd, Sonata Software Ltd. data analysis. The tools used help to determine the incline and decline in the stock prices pre and post the announcements of Dividend and Bonus of the Companies of three industries i.e. Pharmaceutical, Infrastructure, IT .Corporate actions have significant impact on stocks. So, it is important to understand their effect on stock price of the companies. Hence, it can be said that markets react positively in case of bonus and dividend announcements. This study reveals that the performance of stocks changes immediately after announcement of most of the corporate actions. So, taking appropriate long and short positions in the market is crucial for the investors in order to make profits.

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