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Research Article

Impact Of Corporate Announcements On Security Prices

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ABSTRACT

A functioning stock market is an essential element of a competitive economy because it provides a mechanism for allocating economic capital stock. In an ideal situation, the stock market maximizes the overall utility of the economy. Fluctuations in stock prices in the market can affect the country's economy. Hence, the purpose of this study is to explore the impact of corporate announcements on stock price reactions. During the study period from April 1, 2022 to March 31, 2023, corporate announcements played an important role in stock price movements. For 30 Sensex companies, announcements related to performance, dividends, bonuses and new share issues, mergers and acquisitions, share allotments and media or press releases played a major role in the share price movements. From the analysis, most of the impact of corporate announcements on stock price movements is reflected after the announcement is made. The impact of corporate announcements on stock price movements was significant 10 days before and after the announcement.

Keywords: Corporate Announcements, Stock Price, Dividend, Bonus, Reactio

1. INTRODUCTION

India's financial sector has undergone many reforms since the 1990s, particularly in the capital markets sector. A functioning stock market is an essential element of a competitive economy because it provides a mechanism for allocating economic capital stock. In an ideal situation, the stock market maximizes the overall utility of the economy. Fluctuations in stock prices in the market can affect the country's economy. Changes in several factors such as economic, social, and political can cause fluctuations in stock prices. Apart from these factors, information released by the corporate can cause stock price volatility. However, corporate announcements have a significant impact on stock price movements. If a corporate announcement contains good news, stock prices will rise; conversely, if a corporate announcement contains bad news, stock prices will fall. Information that affects security prices includes strikes, lockouts, joint venture agreements, new product launches, financial reports, including annual and quarterly releases, press releases, declarations of dividends, including interim dividends, results of board meetings, annual The results of the next general meeting include rights issues, bonus issues, allotments of shares, including allotments of shares under employee stock option plans, mergers, acquisitions, share buyback offers and sales. Among these various corporate announcements, there is one that is thought to have the greatest impact on stock price fluctuations. With this in mind, the purpose of this study is to explore the impact of corporate announcements on stock price reactions.

2. REVIEW OF LITERATURE

Joseph E. Engelberg, Adam V. Reed, Matthew C. Ringgenberg (2012) evaluated the short selling for news and information. They used database of news releases to the market. Their results showed that the well-documented negative relation between short sales and future returns is twice as large on news days and four times as large on days with negative news. Further, they found that the most informed short sales are not from market makers but rather from clients, and they found only weak evidence that short sellers anticipate news events. The authors suggested that public news provides valuable trading opportunities for short sellers who are skilled information processors.

Jurgita Stankeviþienơ and Simas Akelaitis (2014) examined the relationship of Lithuanian stock market and various types of announcements. They used simplified version of event study methodology and average absolute and abnormal returns were computed. Their study results are consistent with the negative correlation between the values of stock prices and the price changes caused by public announcements was estimated.

Marisetty and Nagendra (2018) analyzed the yield in the form of dividends that affect the stock price. The movement of stock prices is unpredictable, as price fluctuations for different activities move in different ways. Activities that affect stock prices can be divided into economic activities and business activities. While the impact of economic activity is almost the same for all stock prices, the impact of corporate activity varies from stock to stock. Paying dividends is one of the essential corporate activities that influence stock price movements. They highlight the impact of dividend payouts on stock price behavior and unusual returns.

Murray Z. Frank and Ali Sanati (2018) estimated the difference in market responses to positive and negative price shocks accompanied by new information. They interpreted that the stock market overreaction to good news and under-reaction to bad news. These seemingly contradictory results can be explained in a single framework, considering the interaction of retail investors with attention bias, and arbitrageurs with short-run capital constraints. Consistent with their hypothesis, they found that both patterns are stronger when the attention bias is stronger, and when the arbitrage capital is scarce.

Oguz Ersan, Serif Aziz Simsir, Koray D. Simsek and Afan Hasan (2021) measured the speed of stock price adjustment to corporate announcements from Turkey stock exchange. They found that market reaction times to corporate announcements are slower than documented in recent studies, although markets react to positive news more quickly than negative news. When high-frequency traders are more active in the market prior to announcements, the speed of price adjustment is slower. They also found that sizable profit opportunities for investors following event-driven strategies.

Chunyuan Liu, Liyan Han and Gang Chu (2022) tested the effect of overnight corporate announcements on price discovery. Their study results showed that the release of overnight announcements can facilitate price discovery in response to overnight information which was supports the hypothesis that overnight announcements as attention-grabbing events can attract the attention of investors toward specific stocks, resulting in quicker price discoveries. The issuing of overnight announcements by multiple companies simultaneously can result in the diverging of investors' attention.

Dharen Kumar Pandey, Vineeta Kumari and Brajesh Kumar Tiwari (2022) examined the impact of corporate announcements on equity returns during pandemic stress. They used an event study methodology with a market model for a sample of 90 events (announcements and rights dates). They found that all corporate announcements did not affect stock returns in a similar pattern. Bonus announcements, pre-bonus and pre-split events resulted in positive and significant abnormal returns on the day of the event, while rights issue and stock split announcements failed.

3. STATEMENT OF THE PROBLEM

Corporate announcements and their propagations determine the efficiency of the stock market. Therefore, how quickly and accurately security prices react to corporate announcements indicates the efficiency of the stock market. In India, little research has been conducted to examine the efficiency of the stock market regarding corporate announcements. This situation raises the following question:

- What kind of corporate announcements has a big impact on stock prices?

To answer this question, this study aimed to analyze the stock price reactions of 30 companies listed on the Bombay Stock Exchange to corporate announcements.

4. OBJECTIVES OF THE STUDY

The purpose of the research is as follows.

- To study various important corporate announcements of Bombay Stock Exchange listed companies.
- To clarify the impact of corporate announcements on security prices.

5. HYPOTHESIS OF THE STUDY

H_1: Corporate announcements have no significant impact on stock price.

To test our hypothesis, we analytically investigated the relationship between stock price reactions and corporate announcements using an event window before and after corporate announcements.

6. SIGNIFICANCE OF THE STUDY

In this study, we empirically evaluated the informal efficiency of the stock market regarding corporate announcements of 30 listed companies (Bombay Stock Exchange). The significance of this study is that investors can utilize securities evaluations for corporate event announcement information. Corporate event announcement information and the informal efficiency of stock markets are of great interest to investors,

fund managers, policy makers, market regulators, governments, researchers, and the general public. This study is an attempt to examine the informal efficiency of the stock market regarding corporate announcements by companies listed on the Bombay Stock Exchange.

7. METHODOLOGY

In this study, we clarify the impact that corporate announcements have on the stock prices of selected companies. For this purpose, the standard method used to assess stock price reactions to corporate announcements is the event study, as described by [1]Fama, Fisher, Jenshan and Roll (1969) and [2]Brown and Warner (1985). It has been adopted. Event studies have been adopted in many studies, and their sophistication has greatly improved. The event defined in this study is a company's financial results announcement. The announcement date was designated as the event date. In order to examine the effect of corporate announcements on the reaction of security prices, which is the main objective of this study, we identified and used the dates of corporate announcements.

Types of corporate announcements include first quarter (Q1), second quarter (Q2), third quarter (Q3), fourth quarter (Q4) or financial results including final, dividends including interim dividends, bonuses and rights issues, mergers and acquisitions, stock allocations including employee stock option plans/plans (ESOS), and press/media releases. The population of this study consists of financial statements, dividends, bonuses and rights issues, mergers and acquisitions, and financial statements of 30 companies listed on the Bombay Stock Exchange during the year from April 1, 2022 to March 31, 2023. Stock allocation and press/media releases. Announcement dates were collected from respective company's official website. To examine the impact of corporate announcements on stock price behavior, we collected daily closing stock prices from the official website of the Bombay Stock Exchange (www.bseindia.com) and calculated daily stock returns.

The study to test the corporate announcement and return is done through event studies. With the help of the event studies we can measure how quickly relevant information creates impact on share price. For example, the event may be a positive change in earnings and we can identify how quickly the positive information reflected in the share price. The methodology used to test the impact of corporate announcement on share price returns with event studies was developed by Fama, Fisher, Jenshan and Roll. The methodology is as follows:

During the period from 1st April 2022 to 31st March 2023, the 30 Sensex companies were taken and designated period of time was 10 days before and after the event took place. Then an abnormal return is calculated by subtracting the predicted return (expected return) from the actual return during designated period of time i.e, 10 days before and after the event or announcement. The following formula is used for calculation of actual return and expected return.

$R_{it} = (P_t - P_{t-1} / P_{t-1})*100$

Where, R_{it} = the daily return for security i at day t

P_t = Closing price for security at day t

P_{t-1} = Previous closing price for security for day t

Let, expected returns be calculated from the following equation:

$E(r_A) = P(R_{it}) R_{it}$

Where,

$E(r_A)$ = Expected Return

$P(R_{it})$ = Probability of daily returns

The Abnormal Return (AR) is then calculated over the designated period before and after 10 days. The following formula is used for calculation of abnormal return.

$AR_t = R_{it} - E(r_A)$

Where,

AR_t = Abnormal returns

R_{it} = Actual Return

$E(r_A)$ = Expected Return

If the announcements create any impact positively or negatively it would reflect in returns.

To analyse the price effects, we compute the Cumulative Abnormal Returns (CAR) for 21 days centered in the announcement dates. The use of CAR is a common methodology. CAR for event days was obtained as follows:

$$CAR_k = \sum_{n=-10}^{k} AR_n = AR_{-10} + AR_{-9} + AR_{-8} + \ldots\ldots\ldots\ldots\ldots\ldots + AR_{10}$$

It is computed by summing up the daily abnormal returns for each observation across companies and dividing this figure with the total observations on the day. This is done for the whole event period or test period. The equation used for the calculation is given below:

$$CAAR_k = \sum_{n=-10}^{k} AAR_n = AAR_{-10} + AAR_{-9} + \ldots\ldots\ldots\ldots\ldots\ldots + AAR_{10}$$

To test the null hypothesis that the daily Average Abnormal Returns (AAR) on event day t is equal to 0, a t-statistic is calculated. This test determines whether the individual stock returns statistically differ from zero given their distribution about the average.
CAAR is calculated for the specific intervals in the range of -10 to + 10. The segmented ranges are given below:
The CAAR value and its cumulative changes are identified through parametric t-test. The t-test statistic is calculated from the equation which is given below:
$t_T = (CAAR_T / T) / (S_t^* \sqrt{T})$

8. RESULTS AND DISCUSSION

The data targeted for 30 SENSEX companies during the period from April 1, 2022 to March 31, 2023, and the designated period was 10 days before and after the event. The abnormal return is then calculated by subtracting the predicted return (expected return) from the actual return for a specified period, i.e. 10 days before and after the event or announcement. The following corporate announcements and reaction of security prices are discussed below:

8.1 Financial Results Announcement Vs Reaction of Security Prices

H_o = There is no impact on financial results announcements on Cumulative Average Abnormal Return (CAAR).

Figure 1 - Cumulative Average Abnormal Returns (CAAR) of Financial Results

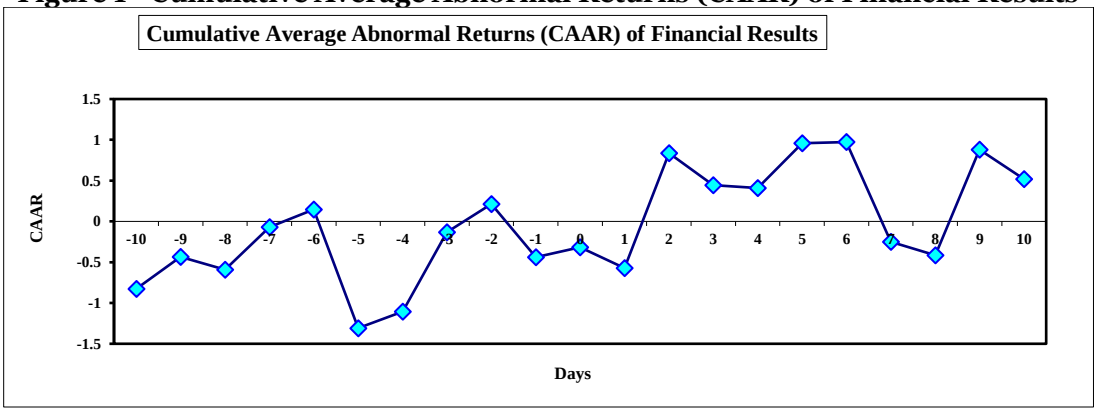

Figure 1 shows that the cumulative average abnormal return (CAAR) up to the fourth day after the announcement of financial results decreases and then increases after the fourth day. The t-statistic for CAAR is statistically significant at the 5% level. Regarding company announcements related to financial results, -6.66, -7.37, -8.10, -8.51, -9.54, -16.97, -32.40, -27.67, -20.61, -29.76, -17.99, -20.05, -17.72, -15.62, -11.21, -8.22, -7.78, -8.10, -7.66, -7.04 were statistically significant at the 5% level. Therefore, it can be interpreted that financial results play an important role in the changes in CAAR before and after financial results announcements. Therefore, H_o was rejected.

8.2 Dividend Announcement Vs Reaction of Security Prices

H_o = There is no impact on Dividend announcements on Cumulative Average Abnormal Return (CAAR).

Figure 2 - Cumulative Average Abnormal Returns (CAAR) of Dividend

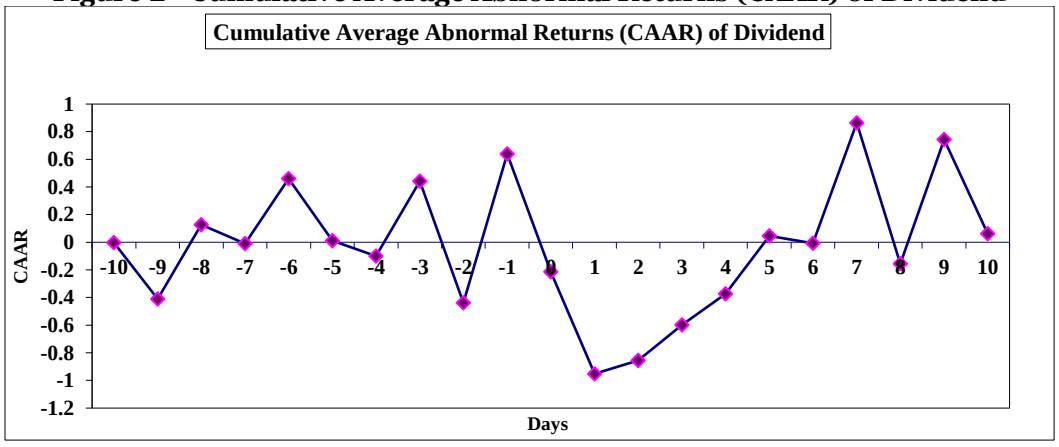

Figure 2 shows that the cumulative average abnormal return (CAAR) increases until the dividend announcement date and decreases thereafter. In addition, for corporate announcements regarding dividends, the t values were 1.01, 1.01, 1.56, 2.11, 3.28, 3.11, 2.93, 3.37, 2.30, 5.68, 0.05, -0.80, -1.51, -2.16, -2.82, -3.48, -4.00. , -4.58, -4.76, and -4.92 were not statistically significant at the 5% level. From this, it is clear that dividend announcements do not bring about changes in CAAR. Therefore, H_o is accepted.

8.3 Bonus and Right Issue Announcement Vs Reaction of Security Prices

H_o = There is no impact on Bonus and Right issue announcements on Cumulative Average Abnormal Return (CAAR).

Figure 3 - Cumulative Average Abnormal Returns (CAAR) of Bonus & Rights Issue

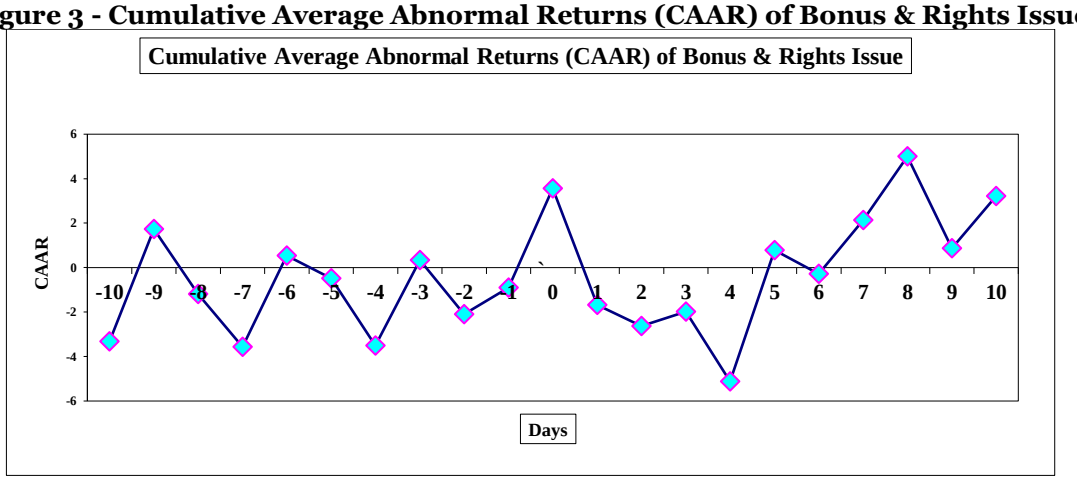

Figure 3 shows that the CAAR (Cumulative Average Abnormal Return) decreases until the date of announcement of bonuses and rights, the decline is small on the announcement date, and then decreases until the date of announcement of bonuses and rights. This shows that the range is large and that the calculated t-statistic for CAAR is statistically significant at the 5% level. In addition, for company announcements related to the issuance of bonuses and rights, the t values are -6.52, -6.63, -7.92, -9.98, -9.82, -11.03, -15.48, -12.54, -10.27, -5.99, -11.62, -8.70, -8.60, -6.87, -7.71, -8.70, -10.06, -10.85, -11.41, -10.89 were statistically significant at the 5% level. Therefore, it can be interpreted that the announcement of bonuses and rights issues plays an important role in producing changes in CAAR before and after the announcement of bonuses and rights issues. Therefore, H0 was rejected.

8.4 Merger and Acquisition Announcement Vs Reaction of Security Prices

H_o = There is no impact on Merger and Acquisition announcements on Cumulative Average Abnormal Return (CAAR).

Figure 4 - Cumulative Average Abnormal Returns (CAAR) of Merger and Acquisition

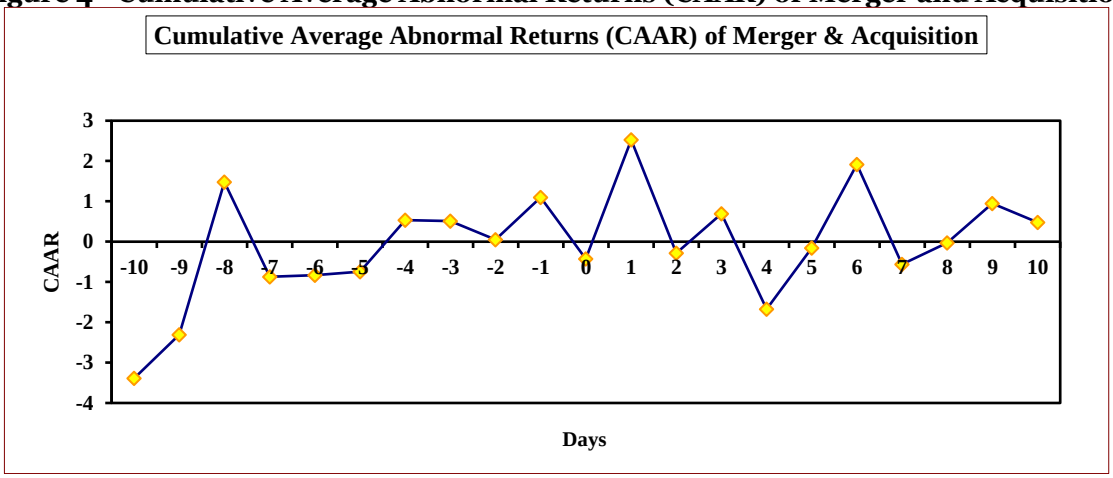

Figure 4 shows that the cumulative average abnormal return (CAAR) decreases up to 6 days after the merger and acquisition announcement, and then increases until the day of the merger and acquisition announcement, and the calculated t-statistic for CAAR is statistically significant at the 5% level. As a result of statistical observation, for corporate disclosures related to mergers and acquisitions, t-values were -18.38, -22.63, -20.29, -22.07, -20.00, -17.05, -18.25, -18.56, -15.53, -22.01, -2.87, -4.13, -4.50, -5.88, -7.21, -7.15, -7.90, -8.68, -8.39, and -7.74 were found to be statistically significant at the 5% level. Therefore, it can be interpreted that merger and acquisition announcements play an important role in causing changes in the cumulative average abnormal return (CAAR) before and after the merger and acquisition announcement. Therefore, H0 is rejected.

8.5 Allotment of Shares Announcement Vs Reaction of Security Prices

H_0 = There is no impact on allotment of shares announcement on Cumulative Average Abnormal Return (CAAR).

Figure 5 - Cumulative Average Abnormal Returns (CAAR) of Allotment of Shares

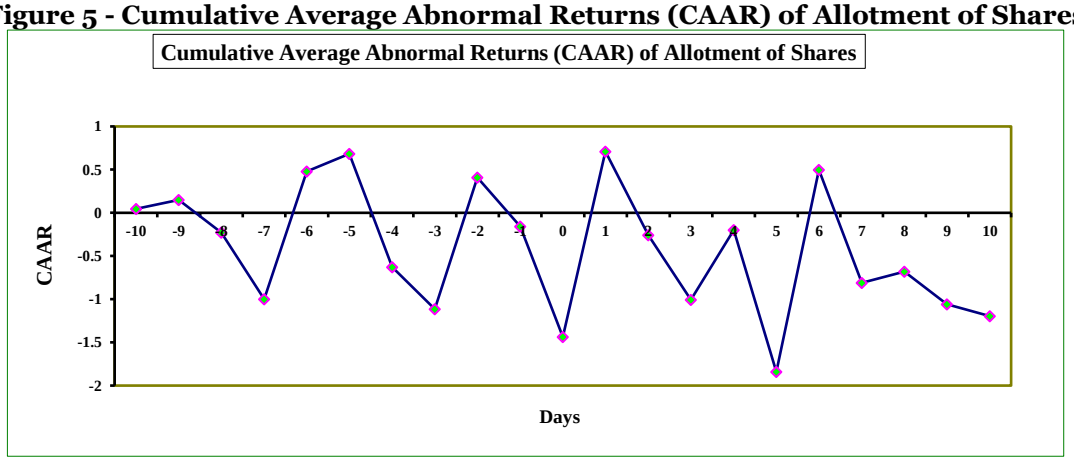

Figure 5 shows that the cumulative average abnormal return (CAAR) up to the 10th day after stock allocation announcement is decreasing, and the calculated t-statistic for CAAR is statistically at the 5% level. As a result of statistical observation, in case of corporate disclosure related to stock allocation, t-values were -2.84, -2.98, -3.32, -3.58, -3.14, -2.99, -3.98, -4.81, -3.51, -2.89, -6.86, -11.58, -9.51, -10.04, -6.69, -7.37, -7.61, -7.73, -7.59, -7.34 were found to be statistically significant at the 5% level. Therefore, it can be interpreted that the stock allocation announcement plays an important role in causing changes in the cumulative average abnormal return (CAAR) before and after the stock allocation announcement. Therefore, H0 is rejected.

8.6 Press/Media Release Announcement Vs Reaction of Security Prices

H_0 = There is no impact on press or media release announcement on CAAR.

Figure 6 - Cumulative Average Abnormal Returns (CAAR) of Press or Media Release

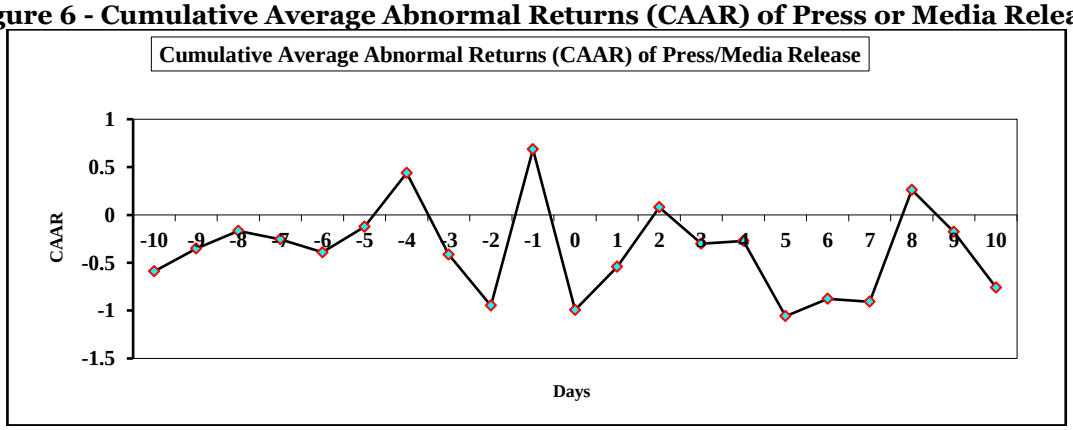

Figure 6 shows that the cumulative average abnormal return (CAAR) decreases until the 10th day after the press/press release announcement and then increases until the merger and acquisition announcement date, and the calculated t-statistic for CAAR is statistically at the level of 5%. can. Statistical observations show that for corporate announcements involving media or press releases, t-values are -7.95, -8.84, -9.34, -9.76, -9.60, -8.38, -7.09, -8.25, -8.82, -5.18, -11.03; -18.13, -22.19, -21.67, -12.52, -10.18, -8.98, -9.37, -9.87, and -10.07 were found to be statistically significant at the 5% level. Therefore, it can be interpreted that media or press release announcements play an important role in causing changes in CAAR before and after the press or press release announcement. Therefore, H0 is rejected.

9. CONCLUSION

Researchers used event studies to measure how quickly corporate announcements are reflected in stock price movements. During the study period from April 1, 2022 to March 31, 2023, corporate announcements played an important role in stock price movements. For 30 Sensex companies, announcements related to performance, dividends, bonuses and new share issues, mergers and acquisitions, share allotments and media or press releases played a major role in the share price movements. In particular, in the first quarter, all six announcements had both positive and negative effects on stock price movements. The second, third and fourth quarters did not have as much of an impact on stock price movements as the first quarter. Most of the impact of corporate announcements on stock price movements is reflected after the announcement is made. The impact of corporate announcements on stock price movements was significant 10 days before and after the announcement.

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