Chapter VIII

Summary of Findings, Suggestions and Conclusion
Findings of the Present Study

The following are the major findings of the present study.

- It is found that resources mobilized from primary market gradually increased year by year from 25,507 crores to 31,16,413 crores.

- It is clearly understood that in the weak form, stock prices reflect all the information in the past series of stock prices. At this level, prices follow a random walk and it is impossible to gain superior returns by looking for patterns in historical stock prices.

- The semi-strong form of efficiency demonstrates that stock prices reflect and adjust themselves to all published information and it is not possible to receive higher returns by studying published data such as newspapers and annual accounts.

- In the strong form, stock prices reflect all available information and in this case, it is impossible to find superior information and returns.

Average Security Returns Variability

- It is found that corporate events announcements contain information which are useful to investors to take investment decisions.

- The Indian stock market is efficient in the semi-strong form. However, it is not perfectly efficient because the results for entire sample events announcements show that there is sharp reaction in the stock price on days surrounding the announcement of events.

- Though there is reaction in the security price around the announcement days, for some events announcements, the reaction extends into the post announcement period also.

- For some events announcements like right issue announcement, bonus announcement, mergers and acquisitions announcements, the security prices reacted during the pre announcement period. It shows that market has well
received these announcement information before the announcement came up and market revised the share prices accordingly.

- The security returns variability is not uniform for all the events announcements. It differs from one event announcement to another event announcement.

- The significant reaction takes place generally during the post announcement period. The entire sample events announcements reacted significantly on days 1, 2, 3, and 4. The post announcement drift indicates that investors can make superior returns by formulating appropriate strategies based on the event announcement released by IT companies.

- In general, the post announcement reaction indicates a lower level of efficiency in the Indian stock market.

- Examination of all the six events announcements reveals that only right issue and bonus issue announcement influenced the share prices immediately after the announcement.

**Average Abnormal Returns**

- The stock split announcement has no significant reaction in the security prices of IT companies during both pre and post announcement period.

- The right issue announcement has significant reaction in the security prices of IT companies. Further, when compared with post announcement period, pre announcement period has high significant reaction on many days.

- The buyback announcement had no significant reaction in the security prices of IT companies immediately but at the same time, stock prices reacted negatively after a week of the announcement.

- IT companies positively received the bonus announcement information before the announcement came up and from day -5 to day -1, the security prices significantly reacted.
- Mergers and Acquisitions announcement did not generate any significant reaction in the security prices around the announcement day during both pre and post announcement period. It started to react from day 6 onwards.

- The dividend announcement had immediate reaction in the security prices of sample IT companies. It means that the market received the dividend announcement information immediately after the announcement.

- For all the sample events announcements the market positively received the events announcements information immediately after the announcement. But at the same time, it started to react negatively from day 6 onwards.

Cumulative Average Abnormal Returns

- Cumulative Average Abnormal Returns for stock split announcement was below 1 throughout the announcement period (-15 to +15). It shows that market did not receive the stock split information during the announcement period.

- In the case of right issue announcement, the CAAR gradually increased during both pre and post announcement period. However, it was high at the post announcement period.

- For buyback announcement, CAAR yielded mixed results. During the pre announcement period, majority of days (-15 to -4) it recorded negative result. But in the post announcement, period it yielded positive result.

- CAAR for bonus announcement was received with the highest result around announcement days (day 1 to day 6) but later on, it decreased gradually to 2.4 in the 15 day period.

- Market did not use the mergers and acquisitions information around the announcement period from day 1 to day 3. However, it started to use the information from day 4 onwards.

- CAAR for dividend announcement yielded negative result both during pre and post announcement period. However, from day 10 onwards, it changed towards positive direction.
- For all the sample events, CAAR reacted negatively at the initial period from day -15 to day -10 and later it moved towards positive direction. Compared with the pre announcement period, the post announcement market absorbed the event announcement contained information positively.

- An efficient market is not automatically created and it is the actions of investors taken together which makes the market efficient.

- Normally, theories work well but not quite as well when they are applied to reality. The theory of Efficient Market Hypothesis is not an exception. There are certain imperfections that question the model upon which this theory is based.

One way ANOVA, Friedman Test, Simple and Multiple Regression Analysis

- Among the sample events announcements, the Average Security Returns Variability (ASRV) differed during both pre and post announcement period for bonus announcement alone.

- Except dividend announcement, all other sample events announcements did not witness any big difference in the Average Abnormal Returns (AAR) during both pre and post events announcements period.

- The values of Cumulative Average Abnormal Returns (CAAR) significantly differed during both pre and post announcement period for the entire sample events announcements.

- There is no significant difference in the Average Security Returns Variability (ASRV) between stock split, buyback, bonus issue, right issue, mergers and acquisitions and dividend announcement.

- There is a significant difference in the Average Abnormal Returns (AAR) between stock split, buyback, bonus issue, right issue, mergers and acquisitions and dividend announcement.
- There is significant difference in the Cumulative Average Abnormal Returns (CAAR) between stock split, buyback, bonus issue, right issue, mergers and acquisitions and dividend announcement.

- It is clear from the simple regression analysis that the stock split and right issue alone had significant influence on the share price with respective $R^2$ values of 0.6095 and 0.4930 during the pre announcement period.

- It is inferred from the simple regression analysis that the event of mergers and acquisitions alone had significant influence on the share price with a $R^2$ value of 0.3633 during the post announcement period.

- It is found from multiple regression analysis that right issue explains 31.74% and the stock split explains 20.14% of dependent variable during the pre announcement period.

- It is understood from the multiple regression analysis that right issue explains 52.76% and the buyback explains 14.88% of the dependent variable during the post announcement period.

Suggestions of the Study

On the basis of the findings of the study, important suggestions have been below to investors, companies and regulators of the security market.

To the Investors

- According to the present study, it is suggested that whenever companies come up with stock split announcement, the investor should take immediate decision (whether to buy or sell).

- It is suggested to the investor that when the company comes up with right issue announcement, the share holders may wait for sometime to gain from the rights issue announcement.

- It is suggested from the study that when the companies comes up with buyback announcement, the investor can take their investment decision few days away
from the buyback announcement because there is high fluctuation in the security price around the announcement day.

- The market has captured the bonus announcement contained information immediately after the announcement. Hence it is advised that, when the company comes up with bonus issue, the investor should take immediate investment decision (buy or sell) in order to benefit from the bonus issue announcement.

- When the company comes up with mergers and acquisitions announcement, the investor may wait for sometime to take investment decision because in the present study, mergers and acquisitions announcement had no immediate impact on the security prices of sample IT companies.

- It is advised that when the company comes up with dividend announcement, the investor can take investment decision according to the information content (good or bad) of dividend announcement.

- According to the analysis, the corporate events announcements (all samples) has significant reaction in the security prices of sample companies during the post announcement period and therefore it is suggested that whenever companies comes up with any event announcement, the investor can closely watch the information content (good or bad) and accordingly take investment decision (buy or sell).

**To the Companies**

- Whenever companies come up with event announcement, it must release the true and reliable information.

- At the time of announcement of events, companies should adhere to the rules and regulations of SEBI strictly.

- The companies should file the relevant documents properly to the monitoring authorities (SEBI, RBI, and Ministry of Finance) at the time of announcement of corporate events.
- The companies should closely observe the investor response while it comes up with event announcement.

**To the Regulators**

- Market efficiency largely depends on the number of investors in the market, particularly the institutional investors and the number of analysts. Due to liberalization, already many domestic as well as foreign institutional investors have entered the market. However, the numbers of trained professional analysts are not available in the Indian market. There is a need to promote programmes that will produce professional analysts.

- The regulatory authorities should monitor the reliability or the truth in the information released by the companies.

- Compared with developed countries, research in the area of capital markets and investment management is very limited in India. Therefore, there should be wider research in this area.

- The important problem in this research area is availability of data. This must be provided by the stock exchanges and the regulatory agencies.

**Scope for Further Research**

The following are suggested for further research.

- The factors influencing the reaction of security prices of IT companies to the corporate event announcements will be of use to investors and companies.

- The reason for the peculiar or the contrary behaviour of IT stock to dividend announcement should be examined.

- Risk adjusted cumulative abnormal returns (CAR) may be studied. This requires the study of risk-returns relationship in the Indian stock market. In the absence of risk returns trade off, the CAR based on risk adjusted returns may be misleading.
- Research studies may be conducted to examine the information content of other related information such as economy related information, political–legal information, industry related information as well as company related information.

- Research studies may be conducted on less frequently traded stocks and the thinly traded stocks.

- An attempt may be made to investigate the Indian stock market efficiency with respect to corporate events announcements made by other industries like FMGC, Pharmaceutical, Bank, Cement and Steel industry etc.,

- The present study used the BSE-500 as the bench mark. Further the research may be attempted to test the efficiency of Indian stock market with other index as a bench market. i.e. BSE Sensex, BSE-100, BSE-200 etc.

- The present study attempted to test the stock market efficiency with companies listed in the BSE. An attempt may be made to test market efficiency with companies listed in the NSE.

- It is interesting to investigate the Indian stock market efficiency by including stocks from all the lists (A, B, C, and D) in BSE and choosing a longer time period of study than the present study.

- An investigation on stock market efficiency could be made by applying the principles of behavioral finance.

**Conclusion**

The present study is significant in several respects. First and foremost thing is that it is one of the few studies testing the efficiency of Indian stock market with respect to information content of corporate events announcements in India with respect to Information Technology (IT) companies. Further, this study used a very large sample containing actively traded IT companies from Bombay Stock Exchange (List A and B1). The present study used the well established event study methodologies for analyzing the efficiency of the information content of corporate events announcements in the Indian context. The results of the study are encouraging. The results of the
present study show that the Indian capital market is efficient in the sense that it uses the information relevant for security valuation and for investment decision making. The corporate events announcements information are captured in stock prices within a short period of few days. The results will be encouraging to finance professionals, analysts, investors, and regulatory agencies because usefulness of accounting information for investment decision making has been indicated by the results.