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Determination of Semi-strong form of Indian Stock Market with Reference to Banking and Automobile Industry

KEYWORDS: verbalization, methods, responses, game, football.

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ABSTRACT *This study aims to measure the impact of dividend announcement in Indian stock market and determine the factors which influencing the behaviour of stock market. Event study has conducted with major industries viz., banking and automobile scripts listed in BSE Sensex. Structural Equation modelling used to measure the relationship within variable and to the determination of efficient market hypothesis. Based on the analysis most of the scripts are having before effect in the market. It means reaction of information in the market place has occurs after reaching the information. Market significantly reacted with the information of dividend. Based on the structural model depicts that excess return and average excess return are the mediating factor for determining the efficiency of the market. Hence it is accepted that pour Indian stock market is the nature of semi-strong form of efficiency.*

1. Introduction

The Indian Stock market is divided in two parts Primary market – where the share is first issued in the form of IPO (Initial Public offering) and after issuing the share it is listed on exchange and share is traded on exchange where share can be bought and sold this is secondary market. In India mainly there are two exchanges- BSE (Bombay stock exchange) NSE (National stock exchange). The BSE is the oldest exchange in India started 1875. NSE stared operation on 1994. Before 2000 shares was held in physical form but the main difficulty with physical shares is method of transaction which is open outcry system and process is not transparent to investor also Physical shares were prone to duplication and find. So in 2000 NSE introduced the electronic screen based trading system further the introduction of Dematerialization (conversion of physical share in to electronic form) and depository (where the electronic form of share is kept) revolutionized the Indian Stock market. Currently there are mainly two Depository (DP)- NSDL and CDSL and these DP are like bank of share. Individual/ firm can deal through Broker (who is registered and having membership in Exchanges and depository) for buying and selling securities. Stock market serves the company by proving company the finance for long term needs and for investor an opportunity to park their savings in corporate world and in turn give their hand in Nation's development so stock exchange have a very vital role in country's economic development.

2. PROBLEM DIFINITION

Investors are recently interested to aggressively invest in the market. But the people are don't know that how to invest in the market. Most of the people believed their stock brokers as analyst for the stock market. But, it is quite falls statement. Number of tools and techniques are available in the market for predicting the behaviour of the stock market. But, every tool has its own limitations. Number of research has conducted in Indian stock market to predict the market price behaviour. Based on that most of the people (including Fama, Jordan) accepted to analyse the impact on event in the stock market. Event analysis is not going to predict the behaviour of the stock market. Instead of that it is going to prove the efficiency of stock market. Event study is going to analyse the impact of publicly available information and its dissemination in the market. So, positive and negative information also have its own character in the market. Sometimes positive information have negative impact in the market and vice versa. So, the investor must apply the strategy to predict the market behaviour based on the event information.

3. OBJECTIVES OF THE STUDY

Based on the above mentioned problem researcher want to get the solution by setting the following objectives for this study.

- To examine the market reaction with respect to dividend announcement.
- To evaluate the risk and return of the stocks in particular index
- To offer valuable suggestion for investor to buy, hold and sell stock in the market and offer theoretical contribution for measuring the events in the stock market.

4. RESEARCH DESIGN

This study is the nature of empirical research. Empirical research is based on empirical evidence. Evidence may already publish on scholarly journals or some other sources. Empirical research which is used appropriate when proof is sought, that certain variables affect another variable in some way. Evidence gathered through experiment or empirical studies is today considered to be the most powerful support possible for a given hypothesis. only Secondary data collection method used in this research study. The study covers the companies that were listed in BSE India Limited. Selection of company based on BSE SENSEX. Under14 sectors there are 30 Companies listed in BSE SENSEX. Out of this 14 Sector, Banking and Automobile sector are taken for this study

5. LITERATURE REVIEW

It is observed that many studies suggest that the stock market is highly efficient in the weak form and reasonably efficient in the semi-strong form. On testing the semi-strong form of EMH, the major announcement events like stock split announcement, bonus issue announcement, dividend announcement etc which reflects the current market prices. These are expected to provide positive vibes to the market as they have a predictable impact on stock prices. Many studies have been made on testing semi-strong form of EMH in relation to event announcement like dividend, bonus, right issue, option listing, stock split, block trading, annual earning etc. Critical reviews of significant studies by the Researchers are as follows-

R.J Shiller (1979), argued that stock index returns are overly volatile relative to aggregate dividends, and many took this as support for Keynes's view that stock prices are driven more by speculator's than by fundamentals.

Ormos, Mihaley (2002), empirically tested the semi-strong

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form efficiency of Hungarian Capital Market. The investigation was based on the capital market data over the period 1991 to 2000, which was analyzed by employing event study. The study concluded that strong form of efficiency of capital market does not completely hold true, thereby supporting that Hungarian Capital Market is semi-strong form efficient.

Iqbal and Mallikarjunappa, T. (2007), tested market reaction to quarterly earnings announcement of 149 companies listed on the Bombay Stock Exchange for September 2001 by employing both parametric and nonparametric tests. The study concludes that Indian stock market is not efficient in semi-strong form.

6. DISCUSSION

- The Average return for the banking sector like HDFC bank and ICICI bank are 0.24% and 0.08%. It shows that, these stocks are moved in a positive way, which indicates to take sell decision.
- For the banking sector, the T-statistic result is 0.03%, which indicates, there is significant impact on the market, at the time of dividend announcement made.
- Regarding the automotive sector, the Hero Motocrop stock has obtained a highest excess return, which is 33.67%. So this indicates a good movement in the market.
- Regarding the automotive sector, the Tata Motors stock has obtained a least excess return, which is -14.79%. So this indicates poor performances in the market.
- The average return for automotive sector like Hero Motocrop is 0.37%, Mahindra & Mahindra is 0.15% and Maruti Suzuki is 0.20% was moved in a positive way, so these companies stocks are ready to make sell decision. Then the average returns for Bajaj Auto ltd is -0.11% and for Tata motors is -0.16%, these are moved in a negative way, so these stocks are ready to make a purchase decision.
- For the automobile sector, the T-statistic result shows 0.05%, which indicates there is no impact on the market, at the time of dividend announcement made.
- It is found, that the spread of stock price of HDFC bank indicates the high price volatile was obtained on 5th week, which has the value of 8 %, and the high price negative volatile was obtained on 8th week, which is -7.83%.
- It is found, that the spread of stock price of Tata motors indicates the high price volatile was obtained on 1st week, which has the value of 5.96%, and the high price negative volatile was obtained on 12th week, which is -7.88%.

7. SUGGESTION AND RECOMMENDATION

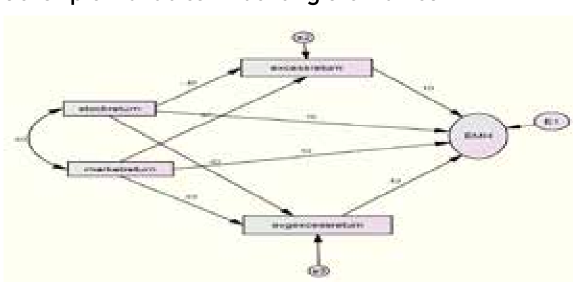
- The market return of SBI has shown averagely increased trend during the event period of study. Therefore it is suggested to buy.
- Risk-averse investors must concentrate on Beta By means of Beta covariance analysis almost such as securities are highly exposed to market volatility. Like SBI bank..ICICI bank, HDFC bank, Mahindra & Mahindra, Tata motors these securities beta value are greater than 1 and therefore buying these shares are more risky. And also they provide more return as exposed to more risk. And it is highly impossible to get lower risk for these securities.
- The HDFC bank shows the most positive excess return (21.95%) during the period of study. It is right time to investor make a investment in HDFC bank
- The Hero Motocrop Ltd shows the most positive excess return (33.67%) during the period of study. It is right time to investor make a investment in Hero Motocrop ltd
- SBI bank shows the most negative Excess Return (-6.82%) It is a right time of investment to switch other stock
- The average Excess Return of HDFC bank and ICICI bank moderate. So it is suggested to buy.
- The aggressive stock are HDFC bank and SBI bank (Beta value more than one)
- Tata motors Shows most negative Excess Return is (14.79%) It is right time to switch other Stock
- The Hero Motocrop ltd shows the Most Positive excess Return. It is the right time to investors make Investment
- The defensive stock is Bajaj Auto Ltd, Hero moto crop ltd and Maruti Suzuki Ltd (Beta value less than 1)
- The average Excess Return of Bajaj auto ltd, and Tata Motors are (negative) therefore its recommended for investor to sell these stock

CONCLUSION

It has been found that there are some companies whose abnormal return were negative on the dividend announcement date but become positive immediately after the dividend announcement date. There are some other companies whose abnormal return were positive on the dividend announcement date and some days before and after announcement date. There are instances where dividend announcement day return was negative but it was positive before and after the divided announcement date. These result confirm the theoretical background regarding the impact of dividend on the stock prices. It shows divided distribution is relevant for future price determination.

Hence, this study provides a detailed analysis of dividend announcement impact on stock price some famous companies from banking and automobile sector listed in Bombay stock exchange was tested and proved as in semi-strong form efficient.

1. Structural Equation Modelling for measuring the relationship of variables influencing the market



2. RMSEA (Root Mean Square Error of Approximation) for model fit (badness of fit index)

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.056	.040	.065	.000
Independence model	.0.35	.025	.037	.000

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