

## **A STUDY ON IMPACT OF CORPORATE NEWS ON STOCK PRICES**

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### **INTRODUCTION**

India is a developing country. Nowadays many people are interested to invest in financial markets especially on equities to get high returns, and to save tax in honest way. Equities are playing a major role in contribution of capital to the business from the beginning. Since the introduction of shares concept, large numbers of investors are showing interest to invest in stock market. In an industry plagued with skepticism and a stock market increasingly difficult to predict and contend with, if one looks hard enough there may still be a genuine aid for the Day Trader and Short Term Investor.

The price of a security represents a consensus. It is the price at which one person agrees to buy and another agrees to sell. The price at which an investor is willing to buy or sell depends primarily on his expectations. If he expects the security's price to rise, he will buy it; if the investor expects the price to fall, he will sell it. These simple statements are the cause of a major challenge in forecasting security prices, because they refer to human expectations. As we all know firsthand, humans expectations are neither easily quantifiable nor predictable. If prices are based on investor expectations, then knowing what a security should sell for (i.e., fundamental analysis) becomes less important than knowing what other investors expect it to sell for. That's not to say that knowing what a security should sell for isn't important--it is. But there is usually a fairly strong consensus of a stock's future earnings that the average investor cannot disprove

Decisions like whether you should buy or sell when trading in the share market is a difficult task to do. It requires split-hair analysis of the market. To do so one also needs to have excellent understanding of the market. Equity analysis forms an integral part of the share trading experience. Equity analysis decides the stance one would take in the share trading industry. Finding out the highs and lows in the market and analyzing the equity is of utmost importance before making any sort of investment.

### **NEED OF THE STUDY**

Today the field of investment is even more dynamic than it was only a decade ago. World event rapidly events that alter the values of specific assets the individual has so many assets to choose from, and the amount of information available to the investors is staggering and continually growing. The key to a successful financial plan is to keep apart a larger amount of savings and invest it intelligently, by using a longer period of time.

The turnover rate in investments should exceed the inflation rate and cover taxes as well as allow you to earn an amount that compensates the risks taken. Savings accounts, money at low interest rates and market accounts do not contribute significantly to future rate accumulation. While the highest rate come from stocks, bonds and other types of investments in assets such as real estate. Nevertheless, these investments are not totally safe from risks, so one should try to understand what kind of risks are related to them before taking action.

The lack of understanding as how stocks work makes the myopic point of view of investing in the stock market ( buying when the tendency to increase or selling when it tends to decrease) perpetuate.

To understand the characteristics of each one of the different types of investment you must have enough financial knowledge. Furthermore, inflation has served to increased awareness of the importance of financial planning and wise investing. More inflation is a worry for each and every individual. Due to inflation value of your money in future will decrease. To cope up this, investors wants to invest their money and earn certain rate of return which is more then rate of inflation. Having clear reasons or purposes for investing is critical to investing successfully. Like training in a gym, investing can become difficult, tedious and even dangerous if you are not working toward a goal and monitoring your progress

### **OBJECTIVES OF THE STUDY**

- To identify the level of awareness created by media among the investors.
- To analyze investors level of responsiveness towards business news.
- To study the impact of business news on investment decision.
- To create marketing awareness of the Investment products and also identify the potential for these products.
- To suggest the best investment opportunities for potential investors.

### **SCOPE OF THE STUDY**

The current study focuses on studying the major factors that will have an impact on the stock prices and stock exchanges. The factors include Demand & Supply of Shares, Impact of News, Initial Public Offerings, Interest Rates, Inflation, Crude Oil Prices, Monsoon, Growth Number (GDP), IIP(Index of Industrial Production), Exchange Rates, Government Regulations, Government Subsidies. Global Markets, Global Environment, Gold Prices, Diseases such as Swine Flu.

The study is an analysis of customers' perception towards different factors towards investment decisions. This study is aimed at providing useful insights so as to give an idea on investments in financial markets

## RESEARCH METHODOLOGY

### RESEARCH DESIGN

This Study is based on exploratory study as well as descriptive study. It was an exploratory study when the customer satisfaction level was studied to gain information about impact of business news on investor's investment decision was descriptive study when detailed study was made for comparison of the features as told by the investors.

### SAMPLING UNIT

Sampling unit implies that who are the respondents. In this sample all those who are invest their money in any financial instruments.

### SAMPLING TECHNIQUE

Sampling technique was the technique used to select the sample size. For Customer: Convenient sampling technique was used. In this, customers were taken according to the convenience of the research study.

### DATA COLLECTION SOURCE

The study is based on both secondary and primary data. The secondary information is collected from different published materials vis. Books, Journals, magazines & websites etc. And primary data collected by communicating with respondents through a structured questionnaire.

### ANALYSIS TECHNIQUE TO BE USED

- **Diagrams and Tables:** Various graphs and tables are used to describe the performance of different financial instruments.
- **Pie chart and percentage:** Pie charts and percentage are also used as a tool for analysis.

### LIMITATIONS OF THE STUDY

- Information is collected primarily from secondary sources and may not be accurate.
- Financial Markets are dynamic in nature. Data may keep on changing from time to time.
- Reluctance of the people to provide complete information about themselves can affect the validity of responses.
- The information can be biased due to use of questionnaires.

### Analysis of Corporate News Impact in Stock Prices

#### 1. Reliance Capital:

Announces strategic alliance with Sumitomo Mitsui Trust Bank of Japan (Japan's fourth largest bank) -Sumitomo Mitsui Trust Bank to take initial 2.77 percent stake in Reliance Capital -2.77 percent stake amounts to Rs 371 crore (USD 58.4 Million) through preferential allotment -Investment at Rs 530/share (Last trading price = Rs 497, a premium of 6.5 percent over Wednesday's close) -Company to establish New Bank in India with support of Sumitomo Mitsui Trust Bank as strategic partner as and when RBI policy permits



**Interpretation:**

The above graph shows that the Reliance media works sells Big Cinemas to carnival is high in 15 December 2014 and low in 15 October 2014.

**2. Essar Oil gains 4%, co to buy 74% stake in Vadinar Power**

Essar Group firm on Wednesday said it will convert over USD 1 billion worth of rupee loan into dollar debt by March to reduce its cost of borrowings and will acquire group firm, Vadinar Power Company, for Rs 2,100 crore. Shares of Essar Oil gained as much as 4 percent intraday Friday as the company will buy balance 74 percent stake in Vadinar Power. Essar Group firm on Wednesday said it will convert over USD 1 billion worth of rupee loan into dollar debt by March to reduce its cost of borrowings and will acquire group firm, Vadinar Power Company, for Rs 2,100 crore.

The coal fired power plant, owned by VPCL, is already providing a refining margin uplift of USD 1-1.5 per barrel to the company. The stock was quoting at Rs 109.75, up Rs 3.00, or 2.81 percent on the Bombay Stock Exchange.



**Interpretation:**

The above chart shows that ESSAR oil grains 4%, co to buy 74% stake in vadinar power reaches high volume in October and low volume in December.

### 3. IFCI jumps 3% as govt to hike stake by pumping Rs 60 cr

The Union Cabinet chaired by Prime Minister, Narendra Modi, approved infusion of Rs 60 crore in IFCI to make it a government company by way of acquisition of preference shares from existing shareholders. 3 0Google +1 0Comments (2) Shares of Industrial Finance Corporation of India (IFCI) rose 3 percent intraday on Tuesday as government is planning to pump in more funds into it. The government has approved raising its stake in IFCI to 51 percent by infusing Rs 60 crore in the country's oldest financial institution. IFCI was set up in 1948 as a statutory corporation under the Industrial Finance Corporation Act, 1948. The Act has since been repealed by the Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993 and IFCI Ltd was registered under the Companies Act, 1956 on March 31, 1993, it said.

The current shareholding of Government of India in IFCI after inclusion of the preference share capital was 47.93 percent, it said. Therefore, IFCI is not a Government Company under section 2(45) of the Companies Act, 2013. A contribution of Rs 60 crore to the capital of the company would raise the shareholding of the Government to 51 percent. The Finance Ministry had sought the Cabinet approval to hike its stake in the IFCI to 51 percent by pumping in Rs 60 crore, and make it a 'government company'. IFCI's total paid-up capital of about Rs 1925 crore comprised Rs 1662 crore as equity capital and nearly Rs 264 crore as preference share capital. IFCI was quoting at Rs 38.10, up Rs 0.40, or 1.06 percent on the BSE.

#### IFCI stock price

On December 30, 2014 IFCI was quoting at Rs 37.35, down Rs 0.35, or 0.93 percent. The 52-week high of the share was Rs 44.90 and the 52-week low was Rs 21.80. The company's trailing 12-month (TTM) EPS was at Rs 3.50 per share as per the quarter ended September 2014. The stock's price-to-earnings (P/E) ratio was 10.67. The latest book value of the company is Rs 40.42 per share. At current value, the price-to-book value of the company is 0.92.



### Interpretation:

The above chart of IFCI is increased its volume in December is 1001062 and low in October is below 38.50.

## 4. HDFC

### See rate cut post Budget; lower lending rate in '15

With 70 percent of its lending coming from the individual segment HDFC says there was no decline in lending over the past three years despite economic slowdown. However, non-individual segment lending saw slowdown over the same period. But on the brighter side, there has been a mild pick-up in incremental lending in the last few months on the non-individual side. Inflation is low, the Reserve Bank of India will wait for the Budget – see the fiscal deficit number and the Budget fingerprint – before lowering rates. Lower rates, in turn, may lead to a pick up in housing loan demand in metros, says Mistry, while adding that growth has mainly been coming From tier II and tier III cities.



### Interpretation:

The above graph shows that the HDFC lending rate is high in December and lower in the July.

## 5. Godrej Properties up 8%, arm buys 49% stake from Madhavi SA

The real estate company said Godrej Projects Development Private Limited (GPDPL) acquired 49 percent of the paid-up share capital and entire debentures of Godrej Premium Builders Private Limited (GPBPL) from Madhavi SA Investments LLC and Madhavi Ventures Limited (the investors).

Shares of Godrej Properties rallied as much as 7.7 percent intraday Tuesday after its subsidiary raised stake in another subsidiary of the company. The real estate company said Godrej Projects Development Private Limited (GPDPL) acquired 49 percent of the paid-up share capital and entire debentures of Godrej Premium Builders Private Limited (GPBPL) from Madhavi SA Investments LLC and Madhavi Ventures Limited (the investors). GPDPL and GPBPL both are subsidiaries of the Mumbai-based real estate developer.



Meanwhile, Godrej Properties entered into an agreement with Godrej & Boyce (G&B) to develop a new mixed-use project on the property at Pirojshanagar, Vikhroli West, Mumbai. The potential saleable area in this project will be approximately 110,000 square meters (1.2 million square feet). Godrej Properties will act as development manager and will work with G&B on the conceptualisation, design, sales, and marketing of the project. "For its services, Godrej Properties will receive a fee equal to 10% of the revenue generated from the development.

The costs for design and construction of the development will be borne by Godrej & Boyce in its role as owner-developer while the cost for sales and marketing will be borne by Godrej Properties in its role as development manager," said the company in its another filing to the exchange. The rally in stock was also after the government approved ordinance to amend the Land Acquisition Act to remove barriers in housing and other sectors like power, defense to kick start stalled projects, there by making the procedure to acquire land faster.

## FINDINGS

Stocks price changes due to market forces, i.e. buying and selling of the available stocks in the market. The following are the factors that affect or even predict the buying or selling of stock that ultimately affects stock prices of companies.

- The price of the stock of a company is affected most of the time by the general market direction during a session. In a bull market, the stock price of most companies will rise and in a bear market the stock price of most companies will fall.

- The performance of the sector or industry that the company is in also plays in part in determining the stock price of the company. Most of the times, the stock price of the companies in the same industry will move in tandem with each other..
- The main objective of a company is to make profit. Therefore, investors and traders always assess a company based on its Earning per Share (bottom line) and Revenue (top line) and its future earning potential.
- This is also closely monitored by investors and is an important factor that will affect the company stock price.
- In general, a company being taken-over is anticipated to get a stock price boost and the company taking over another company shall experience a drop in its share price.
- This is assuming that the company is being taken over at a premium, meaning it is being bought over at a higher price than its last traded stock price. Depends on the agreed term, a company can be bought over by cash or stock (of the acquirer) or a combination of the two.
- In some minority cases, the stock price of the acquirer may get a boost if it is perceived that the acquisition shall contribute to its earning or revenue in the near future.
- A company that is able to obtain new major contracts or major government order is expected to see a bull run in its stock price. Those companies that fail in the contract bidding normally experience the fate of sell-off in its stocks.
- New product introduction to markets or introduction of an existing product to new markets. The introduction of new product to market is seen as a revenue enhancer for a company. This also applies to an existing product that breaks into new markets. Sometimes, the prospect of a new product introduction suffices to improve the stock price of a company, this is often observed in surges in stock prices of pharmaceuticals companies after the announcement of successful clinical trials, or FDA approvals for new drugs.
- The act of share buy-back by a company will reduce the number of share available in the open market. Due to the law of supply and demand, a reduction in share available for trading in this case will cause a drop in supply, this will normally help increase the share price.
- Also, the continuing buying back of share of a company will also acts as a support for the share price that helps to maintain or increase the share price. The investors may also see the share buy-back by company as a confidence booster for them in the company itself. Therefore, share buy-back is quite often used as a tool to deliver value to the investors.
- The stock price may increase by an amount close to the dividend per share value. However, the stock price may drop on the ex-dividend date by the dividend per share amount. This is because anyone buying a stock on or after the ex-dividend date is not entitled to the corresponding dividend payment.
- Stock split in theory should not have an impact to the stock price. However, it is generally observed that whenever the stock price increases (after taking into account the increase in the number of share) after a stock split.

- Some attributed this to the perception of cheap stock due to the lower stock price after the stock split. Some however believes that stock split has no real impact on the stock price (effective stock price, taking into account the change in number of shares), as the stock price will increase regardless of stock split.
- Analyst upgrade and downgrade to a stock may have positive or negative impact to the stock prices. However, one needs to be wary of the fact that quite often analysts' upgrades or downgrades happen "after" some important news about a company.

## SUGGESTIONS

There are three factors which an investor must consider for selecting the right stocks.

- An investor must look into what kind of business the company is doing, visibility of the business, its past track record, capital needs of the company for expansion etc.
- The investor must focus on its key financial ratios such as earnings per share, price-earning ratio; debt-equity ratio, dividends per share etc and he must also check whether the company is generating cash flows.
- This is the most important factor which shows the true worth of the company. An investor needs to choose valuation parameters which suit its business

## CONCLUSION

- Economic liberalization has accelerated the pace of development in the securities market.
- In India, the role of securities market has undergone structural transformation.
- Investment in securities such as shares, debentures and bonds is profitable, but also involves great deal of risk.
- Even Indian Government wants to encourage equity Investment.
- While analyzing stock, investor should consider Demand & Supply of Shares, Impact of News, Intial Public Offerings, Interest Rates, Inflation, Crude Oil Prices, Monsoon.
- Growth Number (GDP), IIP(Index of Industrial Production), Exchange Rates, Government Regulations, Government Subsidies, Global Markets, Global Environment, Gold Prices and other factors.