

## An Empirical Study on Announcement Effect of Rights Issue on Stock Prices of CNX 500 Stocks

K. RAMYA\*  
D. BHUVANESHWARI\*\*

---

### Abstract

Informed investors' market wealth is influenced to a greater extent around the corporate announcements. Therefore, the present study attempts to examine the effect of rights issue announcement of NSE CNX 500 stocks on stock prices during January 2006 to December 2013. Event study methodology was adopted in this study to examine the effect surrounding the sixty days of the announcement. AR, AAR and CAAR were calculated and t tests were carried out to test the significance. Time window analysis was done to find the event window which maximizes the shareholder returns. The findings in respect to rights issue announcement by CNX 500 stocks; it was identified that investors were able to get positive abnormal returns in the pre event window than post event window. It was also found that rights issue announcement had resulted with significant negative impact on stock prices around announcement.

---

### I. Introduction

RIGHT ISSUES ARE the options given to the existing shareholders by a company to buy the shares of the company. It is also known as right of pre-emption. As per the Companies Act 1956, whenever a company wants to issue additional shares, initially those shares are to be offered to the existing shareholders. Though the motive of the law is to ensure concentration of control in the hands of existing shareholders but shareholders avail the benefit of it from cost point of view as well. Rights issues are offered at a price which is less than the market price. This announcement may have beneficial informational content. The share price may increase in response to this information and affect the shareholders wealth (Miglani, 2011).

\* Assistant Professor, Avinashilingam School of Management Technology, Avinashilingam Institute, Home Science and Higher Education for Women Coimbatore, Tamil Nadu 641043 INDIA

\*\* Research Scholar, Avinashilingam School of Management Technology, Avinashilingam Institute Home Science and Higher Education for Women Coimbatore, Tamil Nadu 641043 INDIA

### References

- Ariff, M., and F. J. Finn, (1989), "Announcement effects and market efficiency in a thin market: An empirical application to the Singapore equity market", *Asia Pacific Journal of Management*, Vol. 6, No. 2, pp. 243-265.
- Ball, R. and P. Brown, (1968), "An empirical evaluation of accounting income numbers", *Journal of Accounting Research*, Vol. 6, No. 2, pp.159-178.
- Ball, R., P. Brown, and F. J. Finn, (1977), "Share capitalization changes, information, and the Australian equity market", *Australian Journal of Management*, Vol. 2, No. 2, pp. 105-125.
- Bamber, L. S., (1987), "Unexpected earnings, firm size, and trading volume around quarterly earnings announcements", *Accounting Review*, Vol. 62, No. 3, pp. 510-532.
- Bamber, L. S., and Y. S. Cheon, (1995), "Differential price and volume reactions to accounting earnings announcements", *Accounting Review*, Vol. 70, No. 3, pp. 417-441.
- Barnes, E., and M. Walker, (2006), "The seasoned equity issues of UK firms: Market reaction and issuance method choice", *Journal of Business Finance & Accounting*, Vol. 33, No. 1 2, pp. 45-78.
- Bashir, A., (2013), "Impact of rights issue announcement on shareholders wealth: Case study of Pakistani listed companies", *International Journal of Contemporary Business Studies*, Vol. 4, No. 3, pp. 6-12.
- Beaver, W. H., (1968), "The information content of annual earnings announcements" *Journal of Accounting Research*, Vol. 6, pp. 67-92.
- Brockman, P., and D. Y. Chung, (2001), "Managerial timing and corporate liquidity: Evidence from actual share repurchases" *Journal of Financial Economics*, Vol. 61, No. 3, pp. 417-448.
- Dhatt, M. S., Y. H. Kim, and S. Mukherji, (1996), "Seasoned equity issue: The Korean experience" *Pacific-Basin Finance Journal*, Vol. 4, No. 1, pp. 31-43.
- Dipchand, C. R., (1977), "The Canadian experience with inherent stock splits of rights issue", *Financial Management*, Vol. 6, No. 2, pp. 34-41.
- Eckbo, B. E., and R. W. Masulis, (1992), "Adverse selection and the rights offer paradox" *Journal of Financial Economics*, Vol. 32, No. 3, pp. 293-332.
- Hanson, R., (1988), "The demise of rights issue", *Review of Financial Studies*, Vol. 1, No. 3, pp. 289-309.
- Hess, A. C., and S. Bhagat, (1986), "Size effects of seasoned stock issues: Empirical evidence", *Journal of Business*, Vol. 59, No. 4, pp. 567-584.
- Jetley, G., and S. S. Mondal, 2012, "Rights issue and creeping acquisitions in India", In Midwest Finance Association 2013 Annual Meeting Paper.
- Kang, J. K., and R.M. Stulz (1996), "How different is Japanese corporate finance? An investigation of the information content of new security issue", *Review of Financial Studies*, Vol. 9, No. 1, pp. 109-139.
- Kdaiem, N., (1996), "Market reaction to announcement of rights offerings using daily and intraday data", Doctoral Dissertation, Concordia University.

Kim, J. B., I. Krinsky and J. Lee, (1990), "The aftermarket performance of initial public offerings in Korea", *Pacific-Basin Finance Journal*, Vol. 3, No. 4, pp. 429-448.

Kothare, M., (1997), "The effects of equity issues on ownership structure and stock liquidity: A comparison of rights and public offerings", *Journal of Financial Economics*, Vol. 43, No. 1, pp. 131-148.

Lease, R. C., R. W. Masulis and J. R. Page, (1991), "An investigation of market microstructure impacts on event study returns", *The Journal of Finance*, No. 46, No. 4, pp. 1523-1536.

Leuz, C., and R. E. Verrecchia, (2004), "Firms' capital allocation choices, information quality and the cost of capital", Rodney L. White Center for Financial Research.

Lukose, P. J., and S. N. Rao, (2003), "Operating performance of the firms issuing equity through rights offer", *Vikalpa*, Vol. 28, No. 4, pp. 25-40.

Malhotra, M., M. Thenmozhi and A. K. Gopaldaswamy (2013), "Factors influencing abnormal returns around bonus and rights issue announcement", *IUP Journal of Applied Finance*, Vol. 19, No. 4, pp. 41-60.

Malhotra, M., M. Thenmozhi and A. K. Gopaldaswamy, (2007), "Announcement effect of rights issue on stock returns: A study of selected Indian manufacturing companies", *Journal of Services Research*, Vol. 7, No. 1, pp. 215-231.

Malhotra, M., M. Thenmozhi, and A. K. Gopaldaswamy, (2012), "Liquidity changes around bonus and rights issue announcement: Evidence from manufacturing and service sectors in India", *Wealth: International Journal of Money, Banking & Finance*, Vol. 1, No. 1, pp. 28-34.

Marisetty, V. B., A. Marsden and M. Veeraraghavan (2008), "Price reaction to rights issue in the Indian capital market", *Pacific-Basin Finance Journal*, Vol. 16, No. 3, pp. 316-340.

McConnell, J. J., and C. J. Muscarella, (1985), "Corporate capital expenditure decisions and the market value of the firm", *Journal of Financial Economics*, Vol. 14, No. 3, pp. 399-422.

Miglani, P., (2011), "An empirical analysis of impact of rights issue on shareholders returns of Indian listed companies" *Journal of Arts, Science & Commerce*, Vol. 2, No. 4, pp. 169-176.

Morse, D., (1981), "Price and trading volume reaction surrounding earnings announcements: A closer examination", *Journal of Accounting Research*, Vol. 19, No. 2, pp. 374-383.

Nelson, J. R., (1965), "Price effects in rights offerings" *The Journal of Finance*, Vol. 20, No. 4, pp. 647-650.

Noraini, A., (2009), "The post-issue performance of rights issue in Malaysia", Doctoral Dissertation, Universiti Utara Malaysia.

Owen, S., and J. A. Suchard, (2008), "The pricing and impact of rights issue of equity in Australia", *Applied Financial Economics*, Vol. 18, No. 14, pp. 1147-1160.

Raja, A., (2012), "Rights issue and price behavior: Indian evidence", *Indian Journal of Research*, Vol. 1, No. 9, pp. 152-154.

Riano, C., F. J. Ruiz and R. Santamaria, (2007), "Determinants of the under pricing of new shares during the subscription period: Empirical evidence from the Spanish stock exchange" *Applied Financial Economics*, Vol. 17, No. 7, pp. 521-540.

Salamudin, N., M. Ariff and A. M. Nassir (1999), "Economic influence on rights issue announcement behavior in Malaysia", *Pacific-Basin Finance Journal*, Vol. 7, No. 3, pp. 405-427.

Smith Jr, C. W., (1977), Alternative methods for raising capital: Rights versus underwritten offerings. *Journal of financial economics*, Vol. 5, No. 3, pp. 273-307.

Suresha, B., and G. Naidu, (2012), "An empirical study on announcement effect of rights issue on share price volatility and liquidity and its impact on market wealth creation of informed investors in Bangalore with special reference to CNX Nifty stocks of NSE", *EXCEL International Journal of Multidisciplinary Management Studies*, Vol. 2, No. 7, pp. 41-58.

Tan, R. S., P. L. Chng and Y. H. Tong, (2002), "Private placements and rights issue in Singapore" *Pacific-Basin Finance Journal*, Vol. 10, No. 1, pp. 29-54.

Tepe, M., (2012), "Market reaction to rights offering announcement in the Turkish stock market", Doctoral Dissertation, Middle East Technical University.

Tsangarakis, N. V., (1996), "Shareholder wealth effects of equity issue in emerging markets: Evidence from rights offerings in Greece" *Financial Management*, Vol. 25, No. 3, pp. 21-32.

White, R.W. and P.A. Lusztig, (1980), "The price effects of rights offerings" *Journal of Financial and Quantitative Analysis*, Vol. 15, No. 01, pp. 25-40.