IMPACT OF CORPORATE ACTIONS ON BUSINESS VALUATION: A COMPARATIVE STUDY

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Abstract— Even though Merger Acquisition, declare Right Share, Bonus Share, Dividend share etc. decision regarding manufacturing sector company have been an important element of corporate strategy all over the globe for several decades. But impact on market price liquidity of profitability situation, debt equity worth and overall valuation of concerned companies that subject not describe till the date. Thus this paper uses four variables market capitalisation, Net worth, profitability and Cash and bank balances, and analyses the impact of corporate actions on business valuation by selecting two companies Reliance and Wipro limited as Indian companies. By using the independent sample t test the results revealed that net worth and profitability for reliance and only net worth in case of Wipro limited has significant impact on the business valuation of companies.

Index Terms— Corporate action, Business Valuation, Indian Company, Reliance industries limited, Wipro Limited.

1 INTRODUCTION

Corporate action is any event that brings significant changes to a business and affects its stakeholders, including Cholders of ordinary and preferred bonds. Securities transaction events are generally approved by the company's board of directors and authorized by the shareholders. In recent years, the Giovannini group, a committee of European securities regulators and European central companies has raised securities transactions companies. These organization have been bring great efficiency and standardization to corporate action process and after few years some industries have been launched to work towards these aims this reflects and increasing awareness in the securities in the industries and also have an impact on trading strategies and efficiency of capital market more broadly. When a public traded company issues a corporate action, it is initiating a process that will bring actual change to its stock. A securities transaction indicates the financial affairs of a company and also indicates how this action will influence the price and performa of the company's shares. This knowledge is useful for the investor in determining whether to buy a sale of shares in a particular business. The valuation of a business, on the other hand, is a process for determining the economic value of a business or business. Business valuation can be used to determine the fair value of a business for a variety of reasons, including sale value, settlement, and divorce procedures. Often, owners turn to professional appraisers for an objective estimate of the value of the business. Further for estimating the market price of a business, it appraisers often use the same assessment tools to resolve disputes related to inheritance and gift taxes, divorce disputes, allocate the amount of the price of buying the business, the assets of the business established a formula for estimating the value of the real estate interests of the partner in the purchase-sale agreement and for many other commercial and legal purposes such as in shareholders deadlock, divorce litigation and estate contest. This paper analyses the impact of corporate actions on business valuation by selecting two companies Reliance and Wipro limited as Indian companies.
2 REVIEW OF LITERATURE

Fodor, Stowe and Stowe (2017) have used the implied information about term dividends in relation to stock market usage and accounting variables conventionally used for this purpose. Option-derived variables (implied dividends and implied volatility) improve the ability to identify companies that are more likely to reduce or omit the payment of dividends.

Henry and Koski (2017) use institutional trade data to examine whether rated institutions exploit positive returns ex abnormal dividends. The results show that institutions concentrate exchanges around certain dates and make greater profits around these events. Dividend capture operations represent 6% of all institutional purchase transactions, but contribute 15% of the abnormal overall returns. The trade in capturing institutional dividends is persistent. Ex-day institutional profitability is also strongly linked transversely to the capacity for commercial execution. The relationship between performance and earnings disappears around the placebo and not the ex-days. The results suggest that the rated institutions point to certain opportunities rather than benefiting uniformly over time. In addition, only qualified institutions can benefit from dividend capture.

Zhang (2018) studied the informative content of options trading before the dividend change announcements. I find a positive (negative) relationship between the implied volatility gap (IV) before the announcement (abnormal IV bias) and the abnormal stock returns accumulated around the dividend exchange announcements. Dempsey, Gunasekarage and Truong (2019) have indicated that, while companies with high profit distribution tend to have low to moderate growth (according to conventional theory), companies with low profit distribution are between High and low performance. They interpret our findings on business growth and payment policy regarding the location of the business in the parent company of the Boston Consulting Group (BCG) which combines high / low growth with high / low market share. Our results suggest that the market is struggling to distinguish these types of businesses. One concern is that investor preferences may therefore focus on companies that pay dividends at the expense of younger growth companies that need retained earnings.

He et al. (2016) assessed that in the absence of regulation, the inverse relationship is valid. However, the relationship is distorted by the 2008 regulations. Compared to unrestricted companies, companies with financial constraints are more willing to pay dividends and are more limited to reducing cash dividends after regulation, despite its capabilities of external funding are even more limited.

Homburg, Müller and Nasev (2018) create and test a Bayesian model that shows how investors examine their expectations of profit persistence after the announcement of dividends. When changes in dividends confirm changes in past earnings, our model predicts reverse U-shaped reverse reviews conditioned by previous expectations of loud dividend signals. As the dividend signal becomes more informative, our model predicts that investor opinions will become more biased, converging on a decreasing monotonous ratio for perfectly informative dividend signals. When dividend changes contradict previous profit changes, our model predicts U-shaped investor revisions. In empirical tests, they find results generally consistent with our model’s predictions.

Abdulkadir, Abdullah and Wong (2016) offer new evidence on the existence of the phenomenon of the disappearance of dividends on the Nigerian stock market and on how clients, catering and dividend life cycle theories affect the behavior of payment of corporate dividends. They found no conclusive evidence to suggest that dividend payments had become a second order of importance in corporate payment policies during the period 2003-2012, as they did observe a downward trend in dividend payments than in 2010-2012. The logistic regression of the probability of paying dividends or not and a panel regression of the size of the dividend payment show that customer theory is different from restoration and life cycle theories. The companies in our sample configure their dividend policies according to the preference of foreign investors who have less preference for the dividend than for the capital gain due to the taxes on dividends imposed on these shareholders. They further revealed that interest rate with consistent signs with the prediction of traditional dividend theories.

Akhtar (2018) revealed that the MCs pay significantly less regular cash, special cash, total dividends and net dividends compared to DC; the degree of foreign participation is important in determining special cash payments and net dividends; MCs are more active than CDs in dividend raising activities; and MCs are much less likely to pay dividends compared to CDs because of tax disadvantages and exposure to foreign risk.

Jagannathan and Liu (2019) presented a latent dividend variable model that support the idea that investors' aversion to long-term risks and their knowledge of these risks are important in determining the prices of stock market indices and expected returns.

Grundy and Verwijmeren (2016) revealed that the dividend protection means that the conversion value of the convertible bond is not affected by the dividend payments and that, therefore, the dividend reasons for the appeal period become questionable. They document that the appeal period is close to zero for convertible bonds protected by dividends.
Wei, Truong and Do (2020) used an event study approach, examining 5,574 bond yield responses to unexpected quarterly dividend change announcements in the US corporate bond market during the period 2002-2014. On average, the reaction of bond prices goes in the same direction as changes in dividends, which supports the hypothesis that changes in dividends indicate the future performance of the company. However, the price reaction varies considerably across the spectrum of bond risk. Above all, they document that some bondholders react negatively to the unexpected increase in dividends, indicating a wealth transfer effect. Such a wealth transfer effect is more likely to occur in very high risk, near maturity bonds issued by low cash companies and incorporated outside of Delaware.

3 RESEARCH METHODOLOGY

Research Type: The present study followed descriptive research approach by using quantitative approach of problem solving.

Population: The universe of present study consists of all companies operating in geographical area of India. Sample unit: 2 companies, Reliance and Wipro Limited were selected for the study.

Sample size: the period of study was of 6 year from 2013-14 to 2018-19.

Sampling Technique: In present research, two companies were selected amongst top 10 companies included in the BSE index (SENSEX-30) as convenient sampling method and their financial performance.

Data Source: Secondary data was collected from company and further by using Journals and Articles, Online and international research papers were accessed.

Data Collection Tool: All for selected companies was taken from their published annual reports by researchers as part of data collection process.

Data Analysis Technique: Analysis work after tabulation is generally done by using statistical technique called independent sample t test by using SPSS-19 software.

4 DATA ANALYSIS

To analyses the data, the data is gathered from the annual report of both company and the same is managed to get by using the market capitalization, Net worth, profitability and Cash and bank balances. The variables are shown in the table-1 and 2 as under:

Table-1: Variables of Reliance limited

<table>
<thead>
<tr>
<th>Year</th>
<th>Market cap (In Billion)</th>
<th>Net worth (in crore)</th>
<th>Profitability (in crore)</th>
<th>Cash (in crore)</th>
<th>DIV (in INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar '19</td>
<td>86.39</td>
<td>3,87,112.00</td>
<td>39,734.00</td>
<td>7,512.00</td>
<td>65</td>
</tr>
<tr>
<td>Mar '18</td>
<td>55.92</td>
<td>2,93,506.00</td>
<td>36,021.00</td>
<td>4,255.00</td>
<td>60</td>
</tr>
<tr>
<td>Mar '17</td>
<td>42.89</td>
<td>2,62,839.00</td>
<td>29,941.00</td>
<td>3,023.00</td>
<td>110</td>
</tr>
<tr>
<td>Mar '16</td>
<td>33.87</td>
<td>2,30,721.00</td>
<td>29,625.00</td>
<td>11,869.00</td>
<td>105</td>
</tr>
<tr>
<td>Mar '15</td>
<td>26.68</td>
<td>2,17,672.00</td>
<td>23,640.00</td>
<td>12,545.00</td>
<td>100</td>
</tr>
<tr>
<td>Mar '14</td>
<td>30.04</td>
<td>1,97,839.00</td>
<td>22,548.00</td>
<td>37,984.00</td>
<td>100</td>
</tr>
</tbody>
</table>

Table-2: Variables of Wipro limited

<table>
<thead>
<tr>
<th>Year</th>
<th>Market cap (In Billion)</th>
<th>Net worth (in crore)</th>
<th>Profitability (in crore)</th>
<th>Cash (in crore)</th>
<th>DIV (in INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar '19</td>
<td>1598.4</td>
<td>56,422.60</td>
<td>9,008.00</td>
<td>15,852.90</td>
<td>50</td>
</tr>
<tr>
<td>Mar '18</td>
<td>1404</td>
<td>47,926.30</td>
<td>8,001.70</td>
<td>4,492.50</td>
<td>50</td>
</tr>
<tr>
<td>Mar '17</td>
<td>1389.6</td>
<td>51,670.20</td>
<td>8,493.10</td>
<td>5,271.00</td>
<td>100</td>
</tr>
<tr>
<td>Mar '16</td>
<td>1394</td>
<td>46,144.80</td>
<td>8,957.10</td>
<td>9,904.90</td>
<td>300</td>
</tr>
<tr>
<td>Mar '15</td>
<td>1553</td>
<td>37,092.00</td>
<td>8,714.00</td>
<td>16,619.00</td>
<td>600</td>
</tr>
<tr>
<td>Mar '14</td>
<td>1340</td>
<td>32,128.70</td>
<td>7,990.90</td>
<td>11,420.10</td>
<td>400</td>
</tr>
</tbody>
</table>

To analyse the above gathered data following hypothesis was developed:
H1: The level of selected variables remains same before and after the dividend payment as corporate action for selected company.

To test the above hypothesis the one sample t test were conducted for both the companies by using SPSS software. The results are presented as under:

**Table-3: Independent sample t test for Reliance industries limited**

<table>
<thead>
<tr>
<th>Group Statistics</th>
<th>DIV</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market_cap</td>
<td>&gt;= 100.00</td>
<td>4</td>
<td>33.3700</td>
<td>6.99346</td>
<td>3.49673</td>
</tr>
<tr>
<td></td>
<td>&lt; 100.00</td>
<td>2</td>
<td>71.1550</td>
<td>21.54554</td>
<td>15.23500</td>
</tr>
<tr>
<td>Net_worth</td>
<td>&gt;= 100.00</td>
<td>4</td>
<td>227267.7500</td>
<td>27296.93821</td>
<td>13648.46910</td>
</tr>
<tr>
<td></td>
<td>&lt; 100.00</td>
<td>2</td>
<td>340309.00000</td>
<td>66189.43736</td>
<td>46803.00000</td>
</tr>
<tr>
<td>Profitability</td>
<td>&gt;= 100.00</td>
<td>4</td>
<td>26438.5000</td>
<td>3889.6821</td>
<td>12194.84106</td>
</tr>
<tr>
<td></td>
<td>&lt; 100.00</td>
<td>2</td>
<td>37877.5000</td>
<td>2625.48748</td>
<td>1856.50000</td>
</tr>
<tr>
<td>Cash</td>
<td>&gt;= 100.00</td>
<td>4</td>
<td>16355.2500</td>
<td>15057.62443</td>
<td>7528.81222</td>
</tr>
<tr>
<td></td>
<td>&lt; 100.00</td>
<td>2</td>
<td>5883.5000</td>
<td>2303.04679</td>
<td>1628.50000</td>
</tr>
</tbody>
</table>

**Table-4: Independent sample t test for Wipro limited**

<table>
<thead>
<tr>
<th>Group Statistics</th>
<th>DIV</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market_cap</td>
<td>&gt;= 200.00</td>
<td>3</td>
<td>1429.00</td>
<td>110.729</td>
<td>63.929</td>
</tr>
<tr>
<td></td>
<td>&lt; 200.00</td>
<td>3</td>
<td>1464.00</td>
<td>116.616</td>
<td>67.328</td>
</tr>
<tr>
<td>Net_worth</td>
<td>&gt;= 200.00</td>
<td>3</td>
<td>38455.17</td>
<td>7106.787</td>
<td>4103.105</td>
</tr>
</tbody>
</table>

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Levene's Test for Equality of Variances has been used with assumptions that the variances for the two groups viz. before the dividend declaration and after the declaration are equal. The gap between two defined categories is statistically insignificant (if for F value, p>.05) which connotes that no significant difference exist between the pre and post dividend declaration group. Thus, equal variance assumed row is selected for conducting the Independent sample T-Test. In case of p<0.05 the equal variance not assumed row is selected for conducting the test.

5 CONCLUSION

To increase the value of business (Business valuation) various steps are taken by the business called corporate action for the improvement in the value of business. It is essential to measure the impact of these actions. Dividend is the one of the major corporate action taken by the company thus their impact is to be measured in this paper. For the company reliance for variable net worth and profitability the Independent sample test results at 4 and 3.14 degree of freedom p<0.05. Therefore, the difference between pre and post corporate action (declaration of dividend) the business valuation has significantly changed and further positive increase in the mean value revealed that the business value is increased in case of net worth and profitability with the payment of dividend as the differences are statistically significant at 5% level of significance. For the company Wipro
limited for variable net worth the Independent sample test results at 4 degree of freedom p<0.05. Therefore, the
difference between pre and post corporate action (declaration of dividend) the business valuation has
significantly changed and further the positive increase in the mean value revealed that the business value is
increased in case of net worth with the payment of dividend as the differences are statistically significant at 5%
level of significance.

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