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

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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).

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