

**IMPACT OF CASH DIVIDEND AND SHARES REPURCHASE
ANNOUNCEMENTS ON RETURNS, LIQUIDITY AND RISK: AN
EMPIRICAL EVIDENCE FROM INDIAN CORPORATES**

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by

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Dedicated To My Parents

CERTIFICATE

The thesis titled, “**Impact of Cash Dividend and Shares Repurchase Announcements on Returns, Liquidity and Risk: An Empirical Evidence from Indian Corporates**”, being submitted by **Ms. Sadaf Anwar** to the Indian Institute of Technology Delhi, for the award of the degree of **Doctor of Philosophy** is a record of bonafide research work carried out by her. She has worked under our guidance and supervision, and has fulfilled all the requirements for the submission of this thesis, which has attained the standard for a Ph.D degree of this institute. The results presented in this thesis have not been submitted elsewhere for the award of any degree or diploma.

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ABSTRACT

Dividends and shares repurchases are the principal mechanisms by which firms distribute cash to their shareholders. These decisions typically carry informational content concerning the value of the firm and, by and large, impact the returns, risk and liquidity of the shares of the underlying firm. In view of this, the present study has made an attempt to examine the market reaction of the impact of final *cash dividend changes (increase, decrease and no change announcements)* and *shares repurchases (overall sample as well as infrequent and frequent shares repurchases)* on returns, liquidity and risk profile of the firms. In operational terms, it aims to assess the management perception of cash dividend and shares repurchase announcements and the underlying motives for issuing them.

To know the motivations, managerial views and issues behind these announcements, a survey (for cash dividends and shares repurchases announcements) has been conducted. The market reaction has been examined by assessing the change in the stock returns, change in liquidity (in terms of trading volume, turnover ratio, Amihud illiquidity ratio and ratio of days with trades) and change in the risk (in terms of variance) of the firms. The study has employed the event study methodology and the pre-test and post-test research design to evaluate the changes. The dis-aggregative analysis has also been conducted on the basis of the firm size (total assets of the firm) and age (incorporation year of the firm) for the in-depth analysis subsequent to dividend change and shares repurchase announcements

The evidence based on survey responses suggests that the primary motive in India for cash dividend is to attract more investors. The finance managers' opinions find strongest agreement with the cash dividend creating a psychological impact on investors. They believe that cash dividend serve as a signaling device regarding the future prospects of a company. For the shares repurchase, the finance managers have opined that the primary motive of shares repurchases is to signal the management's confidence in the future. They support the fact that shares repurchase facilitate investors to express confidence in the firm. Indian managers unanimously believe that shares repurchases are undertaken by the firms when they perceive that the share prices are undervalued.

As per the findings, the highest returns have been observed in the case of dividend decrease announcements compared to dividend increase and no change announcements. Perhaps, dividends for the Indian investors are not a favored option because they realize higher returns through capital gains. Further, it appears that dividend no change announcements in India cater to the time varying needs of the investors (clientele). Cash dividend increase announcements create negative perception in the minds of the investor regarding the future earnings forecast and cash flows. The investors perceive that the dividend increasing firms have dearth of growth opportunities. In the case of shares repurchases, positive returns are perceived as positive signals by the investors regarding the management's view that their firm's stock is undervalued. Further, higher returns have been reported for the infrequent repurchases compared to the frequent shares repurchases.

The findings related to liquidity are revealing. The analysis indicates that dividend increase announcements are perceived as positive signals by the shareholders of the sample companies and they prefer to hold the shares on their announcements. They expect capital gains as an opportunity to earn higher returns. Eventually, it is only after the dividends become effective (that is, after the ex-date), that the prices settle down/stabilise and shareholders start booking profit leading to enhanced liquidity during the estimation window. In the case of dividend decrease announcements, liquidity remains high subsequent to these announcements. The results support the catering theory that there has been a shift of investor sentiments away from dividends to capital gains. In contrast, the incidence of increase in liquidity during the estimation window subsequent to dividend no change announcements boosts the confidence of the investors that the firm is utilizing excess cash and reinvesting for higher returns in the long-term.

As far as the effect of shares repurchase announcements is concerned, liquidity after the announcement of shares repurchase has declined (during the event window period) due to the reduction of equity shares outstanding for trade. Liquidity has improved during the estimation window due to the reduction in information asymmetry regarding the uncertainty in the share prices. Therefore, new investors will enter the market to purchase the stock; thereby enhancing the liquidity. The improvement in liquidity over the period of time has been observed for the infrequent shares repurchase announcements compared to frequent repurchases.

The results for risk illustrate that the announcement of cash dividend increase announcements leads to an increase in variance in the event window period and decrease in the variance in the estimation window period. Perhaps, the increase in volatility is likely to be high due to low information environment. The decrease in variance is largely attributed to the transition of a firm to the mature stage of its life-cycle with fewer growth opportunities.

In the case of dividend decrease announcements, variance has declined for all the time periods subsequent to these announcements. Perhaps, the investors perceive that the cash flows re-invested by the firm would accelerate the growth rate of the firm as well as increase the value of shares over time. For the dividend no change announcements, mixed results of increase as well as decrease in variance have been reported during the event window as well as the estimation window period. As far as share repurchases are concerned, there has been an evidence of decline in risk in the event window as well as the estimation window. The possible reasons are the low prices of shares, less trading activities, less investment opportunities and free cash flow available for firms.

The empirical findings for the dis-aggregative analysis of cash dividend increase announcements reveal that on the basis of firm size, returns of the 'small' firms are higher compared to their larger counterparts. According to the firm age, 'middle-age' firms and 'young' firms have reported higher returns. Liquidity is enhanced for the 'small' and the 'very large' firms, on the basis of firm size. On the basis of firm age, the 'young' firms provide higher liquidity compared to the other firms. It has been noted that risk is higher for 'very large' firms according to the firm size. On the basis of firm age, risk has been reported the lowest in the case of 'old and established' firms.

For the dividend decrease announcements, according to the size of the firm, 'large' firms have exhibited higher returns compared to their other counterparts. Whereas, according to the firm age, 'middle-age' and 'old and established' firms provide better returns to the shareholders of the sample firms. Examining the liquidity pattern on the basis of firm size, 'small' firms have reported least liquidity. According to the age of the firm, higher liquidity has been observed in the case of 'middle-age' firms compared to the firms of other age-groups. Further, 'small' firms are less risky, on the basis of firm size. According to the firm age, risk has been noted more in the case of 'old and established' firms, amongst others.

In the case of dividend no change announcements, 'small' firms have reported higher returns, according to the firm size; whereas, on the basis of firm age, 'middle-age' and 'young' firms have performed better. Based on firm size, liquidity has improved for the 'large' firms; in contrast, it has been reported better for the 'middle-age' firms, on the basis of firm age. Risk has been noted higher for the 'small' and the 'large' firms according to the firm size. On the basis of firm age, the fluctuations appear to be higher for the 'young' firms compared to the other firms.

It is useful to note that the signaling, undervaluation, free cash flow and the maturity hypotheses have emerged as the strongest explanations around the announcements of cash dividend and shares repurchase. Through the results, the study has been able to provide suitable time period for the investors from investment perspective to maximize their returns. Based on the findings of the research, useful implications and recommendation have been suggested for the investors, managers, policy makers, academicians and the researchers. Therefore, it is suggested that the firms/managers should be conscious of the fall out of their corporate actions (in terms of payment of cash dividend and shares repurchase) to maximize the shareholders wealth as well as increase the value of the firms.

सार

नकद लाभांश और शेयरों के पुनर्खरीद प्रमुख तंत्र हैं जिसके द्वारा कंपनियां अपने शेयरधारकों को नकद वितरित करती हैं। ये फैसले आम तौर पर फर्म के मूल्य से संबंधित जानकारी सामग्री लेते हैं और, बड़े पैमाने पर, अंतर्निहित फर्म के शेयरों के रिटर्न, जोखिम और तरलता को प्रभावित करते हैं। इसे ध्यान में रखते हुए, वर्तमान अध्ययन ने अंतिम नकद लाभांश के परिवर्तन (वृद्धि, कमी और कोई परिवर्तन घोषणाएं) और शेयरों के पुनर्खरेब (समग्र नमूने के साथ-साथ निराला और अक्सर शेयरों की पुनर्खरीद) के प्रभाव के बाजार प्रतिक्रिया की जांच करने का प्रयास किया है फर्मों की तरलता और जोखिम प्रोफाइल, रिटर्न परिचालन संबंधी शर्तों में, इसका लक्ष्य नकदी लाभांश के प्रबंधन की धारणा का मूल्यांकन करना है और शेयरों को पुनर्खरीद घोषणाओं और उन्हें जारी करने के लिए अंतर्निहित उद्देश्यों का मूल्यांकन करना है।

इन घोषणाओं के पीछे प्रेरणा, प्रबंधकीय दृष्टिकोण और मुद्दों को जानने के लिए, एक सर्वेक्षण (नकद लाभांश और शेयरों की पुनर्खरीद घोषणाओं के लिए) आयोजित किया गया है। शेयर रिटर्न में बदलाव का मूल्यांकन करके, तरलता में बदलाव (ट्रेडिंग वॉल्यूम, टर्नओवर रेशियो, अमिहुद इलिलिक्विटी अनुपात और ट्रेडों के साथ दिन के अनुपात) और जोखिम में बदलाव (भिन्नता के मामले में) के बाजार मूल्यांकन की जांच की गई है। कंपनियां इस अध्ययन में बदलावों का मूल्यांकन करने के लिए इवेंट स्टडी पद्धति और प्री-टेस्ट और पोस्ट-टेस्ट अनुसंधान डिज़ाइन को नियोजित किया गया है। लाभांश परिवर्तन के बाद गहराई से विश्लेषण के लिए फर्म के आकार (फर्म की कुल संपत्ति) और उम्र (फर्म का निगमन वर्ष) के आधार पर भी डिसएगेटिव विश्लेषण किया गया है और शेयरों की पुनर्वित्त घोषणाएं¹

सर्वे प्रतिक्रियाओं पर आधारित साक्ष्य से पता चलता है कि नकद लाभांश के लिए भारत में प्राथमिक उद्देश्य अधिक निवेशकों को आकर्षित करना है। फाइनेंस मैनेजर्स की राय नकदी लाभांश के साथ मजबूत समझौते से निवेशकों पर मनोवैज्ञानिक प्रभाव पैदा करते हैं उनका मानना है कि नकद लाभांश कंपनी के भविष्य की संभावनाओं के बारे में सिग्नलिंग डिवाइस के रूप में काम करता है। शेयरों के पुनर्खरीद के लिए, वित्त प्रबंधकों ने यह राय दी है कि शेयर के पुनर्निर्माण के प्राथमिक उद्देश्य भविष्य में प्रबंधन के विश्वास को संकेत देना है। वे इस तथ्य का समर्थन करते हैं कि

शेयरों की पुनर्खरीदी से निवेशकों को फर्म पर विश्वास व्यक्त करने की सुविधा मिलती है। भारतीय प्रबंधकों का सर्वसम्मत मानना है कि शेयरों की पुनर्खरीदें फर्मों द्वारा की जाती हैं, जब वे मानते हैं कि शेयर की कीमतें कम मात्रा में हैं।

निष्कर्षों के मुताबिक, लाभांश में वृद्धि की घोषणाओं के मुकाबले लाभांश में कमी के मामले में सबसे ज्यादा रिटर्न और कोई भी घोषणा नहीं हुई है। शायद, भारतीय निवेशकों के लिए लाभांश एक पसंदीदा विकल्प नहीं हैं क्योंकि वे पूंजी लाभ के जरिये ज्यादा रिटर्न हासिल करते हैं। इसके अलावा, ऐसा लगता है कि भारत में लाभांश में कोई परिवर्तन नहीं होने की घोषणा समय-समय पर निवेशकों (ग्राहकों) की अलग-अलग जरूरतों को पूरा करती है। नकद लाभांश में वृद्धि की घोषणा निवेशक के दिमाग में भविष्य की कमाई की भविष्यवाणी और नकदी प्रवाह के बारे में नकारात्मक धारणा पैदा करती है। निवेशकों का मानना है कि लाभांश बढ़ाने वाली कंपनियों में विकास के अवसरों की कमी है। शेयरों के पुनर्खरीद के मामले में, सकारात्मक रिटर्न को प्रबंधन के दृष्टिकोण के बारे में निवेशकों के सकारात्मक संकेतों के रूप में माना जाता है कि उनकी फर्म का स्टॉक कम नहीं है। इसके अलावा, अधिकतर रिटर्न की रिपोर्ट लगातार बार-बार शेयरों के पुनर्खरीद की तुलना में दुर्लभ पुनर्खरीद के लिए की गई है।

तरलता से संबंधित निष्कर्ष खुलासा कर रहे हैं। विश्लेषण दर्शाता है कि लाभांश में वृद्धि की घोषणाएं नमूना कंपनियों के शेयरधारकों द्वारा सकारात्मक सिग्नल के रूप में देखी जाती हैं और वे अपनी घोषणाओं पर शेयरों को रखना पसंद करते हैं। वे उच्च लाभ अर्जित करने के अवसर के रूप में पूंजीगत लाभ की उम्मीद करते हैं। आखिरकार, यह लाभांश बनने के बाद ही होता है (जो कि पूर्व-तिथि के बाद), कीमतें स्थिर / स्थिर बनाए रखती हैं और शेयरधारकों ने मुनाफे की बुकिंग शुरू कर दी है और अनुमान खिड़की के दौरान बढ़ी हुई तरलता को बढ़ाता है। लाभांश में कमी की घोषणाओं के मामले में, इन घोषणाओं के चलते चलनिधि बनी हुई है परिणाम खानपान सिद्धांत को समर्थन देते हैं कि लाभांश से पूंजीगत लाभ के लिए निवेशक भावनाओं का एक बदलाव हुआ है। इसके विपरीत, अनुमाननीय विधवा के दौरान नकदी में वृद्धि की घटनाओं के बाद लाभांश के लिए कोई परिवर्तन घोषणा नहीं होने से निवेशकों का विश्वास बढ़ जाता है कि फर्म अधिक नकदी का इस्तेमाल कर रहा है और लंबी अवधि में उच्च रिटर्न के लिए पुनः निवेश कर रहा है।

जहां तक शेयरों के पुनर्खरीद घोषणाओं का संबंध है, व्यापार के लिए बकाया इक्विटी शेयरों में कमी के कारण शेयरों की पुनर्खरीद की घोषणा के बाद नकदी में गिरावट आई (घटना खिड़की अवधि के दौरान)। शेयर की कीमतों में अनिश्चितता के बारे में जानकारी असंतुलन में कमी के कारण अनुमान खिड़की के दौरान तरलता में सुधार हुआ है। इसलिए, नए निवेशक स्टॉक खरीदने के लिए बाजार में प्रवेश करेंगे; जिससे तरलता बढ़ जाती है बार-बार पुनर्खरीद की तुलना में दुर्लभ शेयरों के पुनर्खरीद घोषणाओं के लिए समय की अवधि में तरलता में सुधार देखा गया है।

जोखिम के नतीजे बताते हैं कि नकद लाभांश की घोषणाओं की घोषणा से घटना खिड़की अवधि में विचलन में वृद्धि हो सकती है और अनुमान विंडो अवधि में विचलन में कमी आती है। शायद, कम सूचना पर्यावरण के कारण उतार-चढ़ाव में वृद्धि उच्च होने की संभावना है। विचरण में कमी का श्रेय फर्म को अपने जीवन-चक्र के परिपक्व अवस्था में कम वृद्धि के अवसरों के साथ परिवर्तित करने के लिए काफी हद तक जिम्मेदार ठहराया गया है।

लाभांश में कमी की घोषणाओं के मामले में, इन घोषणाओं के बाद सभी समय-अवधि के लिए विचलन घट गया है। शायद, निवेशक यह मानते हैं कि फर्म द्वारा पुनर्नवीनीकरण की नकदी प्रवाह फर्म के विकास दर में तेजी लाएगा और समय के साथ शेयरों के मूल्य में वृद्धि करेगा। लाभांश के लिए कोई परिवर्तन की घोषणा नहीं, वृद्धि के मिश्रित परिणाम और साथ ही विचलन में कमी की घटना खिड़की के दौरान और आकलन विंडो अवधि के दौरान सूचित की गई है। जहां तक शेयर पुनर्खरीद का संबंध है, घटना खिड़की के साथ ही आकलन खिड़की में जोखिम में गिरावट का एक प्रमाण रहा है। संभावित कारण शेयरों की कम कीमत, कम व्यापारिक गतिविधियों, कम निवेश के अवसर और फर्मों के लिए मुफ्त नकदी प्रवाह उपलब्ध हैं।

कैश डिविडेंड के डिएग्रेटिव विश्लेषण के लिए आनुपातिक निष्कर्ष बताते हैं कि फर्म आकार के आधार पर, 'छोटे' कंपनियों के रिटर्न उनके बड़े समकक्षों के मुकाबले ज्यादा हैं। फर्म की उम्र के अनुसार, 'मध्यम-उम्र' कंपनियों और 'युवा' फर्मों ने उच्च रिटर्न दाखिल किया है। फर्म के आकार के आधार पर 'छोटे' और 'बहुत बड़ी' फर्मों के लिए तरलता बढ़ी है। फर्म की उम्र के आधार पर, 'युवा' फर्म अन्य कंपनियों की तुलना में उच्चतर तरलता प्रदान करते हैं। यह ध्यान दिया गया है कि फर्म आकार के अनुसार 'बहुत बड़ी' फर्मों के लिए जोखिम अधिक होता है। फर्म की उम्र के आधार पर, 'पुराने और स्थापित' कंपनियों के मामले में सबसे कम जोखिम दर्ज किया गया है।

फर्म के आकार के मुकाबले लाभांश में कमी की घोषणाओं के लिए, 'बड़ी' फर्मों ने अपने अन्य समकक्षों की तुलना में अधिक रिटर्न का प्रदर्शन किया है। जबकि, फर्म की उम्र के अनुसार, 'मध्यम-उम्र' और 'पुरानी और स्थापित' कंपनियां नमूना फर्म के शेयरधारकों को बेहतर रिटर्न प्रदान करती हैं। फर्म के आकार के आधार पर तरलता पैटर्न की जांच करते हुए, 'छोटी कंपनियों' ने कम से कम तरलता की सूचना दी है फर्म की उम्र के अनुसार, अन्य आयु समूहों की कंपनियों की तुलना में 'मध्यम-उम्र' कंपनियों के मामले में उच्चतर तरलता देखी गई है। इसके अलावा, फर्म के आकार के आधार पर, 'छोटी' फर्म कम जोखिम वाले हैं। फर्म की उम्र के मुताबिक, 'पुरानी और स्थापित' फर्मों के मामले में, अन्य लोगों के बीच जोखिम में ज्यादा ध्यान दिया गया है।

लाभांश के मामले में कोई घोषणा नहीं की गई, फर्म के आकार के अनुसार, 'छोटी' फर्मों ने ज्यादा रिटर्न दाखिल किया है; जबकि, फर्म की उम्र के आधार पर, 'मध्यम-उम्र' और 'युवा' फर्मों ने बेहतर प्रदर्शन किया है फर्म आकार के आधार पर, 'बड़ी' कंपनियों के लिए तरलता में सुधार हुआ है; इसके विपरीत, फर्म की उम्र के आधार पर, 'मध्यम-उम्र' कंपनियों के लिए बेहतर सूचना दी गई है। फर्म के आकार के अनुसार 'छोटे' और 'बड़ी' फर्मों के लिए जोखिम का उल्लेख किया गया है। फर्म की उम्र के आधार पर, अन्य कंपनियों की तुलना में 'युवा' फर्मों के लिए उतार-चढ़ाव उंचा दिखता है।

यह नोट करना उपयोगी है कि नकद लाभांश और शेयरों की पुनर्खरीद की घोषणाओं के आसपास सिग्नलिंग, अवर्वचयन, मुफ्त नकदी प्रवाह और परिपक्वता परिकल्पना मजबूत स्पष्टीकरण के रूप में उभरी हैं। परिणाम के माध्यम से, निवेश निवेश परिप्रेक्ष्य से निवेशकों के लिए उचित समय अवधि प्रदान करने के लिए अपने रिटर्न को अधिकतम करने में सक्षम हो गया है। शोध के निष्कर्षों के आधार पर, निवेशकों, संभोग, नीति निर्माताओं, शिक्षाविदों और शोधकर्ताओं के लिए उपयोगी निहितार्थ और सिफारिश का सुझाव दिया गया है। इसलिए, यह सुझाव दिया जाता है कि फर्मों / प्रबंधकों को शेयरधारकों की संपत्ति को अधिकतम करने के साथ-साथ फर्मों के मूल्य में वृद्धि के लिए अपने कॉर्पोरेट कार्यों (नकद लाभांश और शेयरों के पुनर्खरीद के भुगतान के मामले में) से बाहर होने के बारे में सचेत होना चाहिए।

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- Appendix II Respondent Companies of Survey
- Appendix III Websites Referred

LIST OF ABBREVIATIONS

AARs	Average Abnormal Returns
AD	Announcement Day
ANOVA	Analysis of Variance
BHAR	Buy and Hold Returns
BSE	Bombay Stock Exchange
CAARs	Cumulative Average Abnormal Returns
CFOs	Chief Financial Officers
CNX NIFTY CRISIL NSE Index (where ‘C’ stands for CRISIL, ‘N’ stands for NSE and ‘X’ stands for Exchange or Index)	
CRISIL	Credit Rating Information Services of India Limited
DPS	Dividend per Share
EPS	Earnings per Share
Ex-DATE	Execution Date
IIP	Index of Industrial Production
ISE	Irish Stock Exchange
MVA	Manufacturing Value Added
NCFM	National Stock Exchange Certification in Financial Markets
NIFTY	National Stock Exchange Fifty
NPV	Net Present Value
NSE	National Stock Exchange
NYSE	New York Stock Exchange
PWC	PricewaterhouseCoopers
RoC	Registrar of the Company
SEBI	Securities and Exchange Board of India
SENSEX	Stock Exchange Sensitive Index
S & P 500	Standard & Poor’s 500 Index
SSRN	Social Science Research Network
U.K.	United Kingdom
U.S.	United States