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A Study on the Importance of Corporate Actions for the Firms

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Abstract:

Corporate actions play a significant role for the firms as they bring material changes to the organisations. Firms belonging to different industries as and when announce corporate actions which impact their stakeholders and also the psychology of investors. The study attempts to throw light on the importance of corporate actions for the firms with reference to a case study of automobile industry. Secondary data has been collected for the study and the study successfully concludes that corporate actions significantly impact the firms and various stakeholders.

Keywords: Corporate actions, Dividend, Bonus issue, Merger and Acquisition and Investors.

Introductions:

Corporate actions are the initiatives which are taken up by a corporate entity that brings in a change to the value of its stock. A corporate action is initiated by the board of directors and need to be approved by the shareholders of the company. Corporate actions include a wide range of actions like pressing financial matters, changing the firm's name or trade symbol etc.

The corporate actions are classified into three important categories which are mandatory corporate actions, mandatory corporate actions with choice and voluntary corporate actions. In mandatory corporate actions, the shareholders have no choice as to their participation while in voluntary corporate actions they have a choice whether to participate or not to participate in corporate action. In mandatory corporate actions with choice, the shareholders are given a choice with one of the said options as a default. The mandatory corporate actions include Cash Dividend, Stock Splits, Bonus Issue, M&A and Spin-offs. The mandatory corporate actions with choice include Cash or stock dividend option with one of the options as default. Voluntary corporate actions include Tender Offer, Buy- back and Rights Issue. The major corporate actions are announcement of dividend, bonus issue, stock splits, merger & acquisition, rights issue and buyback.

- A cash dividend is a common corporate action that impacts the stock price of the company. A cash dividend is distributed to the shareholders out of net earnings of the organisation after the proposal from the board of directors and the approval from the shareholders for the same. It is distributed out of the current years profit or out of the reserves. Paying dividend is not necessary every year. If the company feels that there are some better projects to invest in rather than paying dividend then it can do so.

- A Stock split comes under mandatory corporate action in which the stocks that shareholders hold are actually split. In a stock split, the number of outstanding shares is increased by a specified multiple and the market price per share is decreased.
- Mergers and acquisitions (M&A) are included in mandatory corporate action that brings about material changes to companies. In an act of merger, two or more companies agree to form a new company. Here, one of the two companies loses its existence. , On the other hand in an acquisition, one company, the acquirer, takes over another company, the target company. In an acquisition, both the companies have their existence but the acquirer gains an effective control over the management and assets of the target company.
- Bonus shares are issued to the existing shareholders in lieu of paying dividend in cash. Issuing bonus shares is the capitalization of profits. This is also known as stock dividend. In order to issue bonus shares, a company has to satisfy certain conditions and follow the guidelines issued by SEBI.

Review of literature:

Literature reviews play an important role for the study as it provides right direction related to the topic. The text written by **Md. Abdullah Al- Hasan, Md. Asaduzzaman, Rashed al Karim (2013)** has proved that there is a significant effect of dividend policy on MPPS which supports the relevance theory of the dividend policy**. Prathibha Thuvara, Balasubramanian P, Bhawana Jain(2014)** indicates that company pays out its dividend each year relative to its share prices and it does have an impact on the stock price behavior. **D.Bhuvaneshwari1, Dr. K.Ramya2 (2014**) found that the investors gain significant returns on the announcement date and around the announcement dates of stock split. **P.G.Thirumagal1, Dr. S. Vasantha2 (2015)** shows that size of the company, its EPS and ROE are the major factors that affect the dividend payout of the company. **Dr. Vinay Kandpal, Prof P C Kavidayal (2015)** concluded that dividend policy has significant impact on the share price of organization. **Dr. Parul Agrawal (2016)** states that dividend alone cannot be the right yardstick to judge the performance of a company. **ATM Adnan1,*, Alamgir Hossain2, (2016)** observed that target companies' CAAR value over the period of post-merger announcement is higher than the acquiring companies' CAAR value. **Dr. D Geetha and A Karthika (2017)** show that dividend policy has significant impact on firm value for steel authority of India but for remaining companies dividend payout is less correlated with firm value. **Anu Riya K.J*, Sreejith P.R, A. Ananth (2017)** suggests that investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash**. Dr. Hari Om and Ms. Sonal Goel(2017)** according to t-test there is no relationship between the MPPS and dividend policy whereas other test shows that it exists. **Osama El Ansary, Mervat Hussien(2017)** concluded that the announcement of both of stock split and stock dividend has a positive impact on stock prices **Dhanya Alex, (2017)** found that the stock prices do not react to bonus share announcements and ex- bonus dates. **Dr. Anas Khan1, Prof. Nasir Zamir Qureshi2 (2018)** shows that there is significant impact of dividend policy on the EPS of TATA Motors.On the other hand it has been shown that there is insignificant impact of dividend policy on EPS of Force Motors. **N. Sumathi and K. Jothi (2018)** concludes that the dividend per share and previous year market price per share have significant relationship in the shareholders wealth. **Dr. Jutimala Bora, Mr. Pankaj Sahu, (2019)** suggested that the bonus issue of shares are having a positive impact on the share prices of the companies**. Dr. B. L. Gupta, Komal Soni,(2020)** reveals that the corporate action (declaration of dividend) has significantly and positively changed the business value. **Dharen Kumar Pandey, Vineeta**

Kumari P. G., (2022) finds that rights issue and stock-split announcements fail to generate any significant positive abnormal returns but the bonus announcements do on the event day followed by negative returns.

Research Methodology:

Case study approach has been adopted for the study to analyze whether corporate actions play an important role or not for the firms. A case study of automobile industry involving the announcement of merger and acquisition of TATA Motors Ltd. And Ford Motors (Jaguar and Land Rover Brands) has been selected for the study.
The data used for the study is of secondary nature and data have been collected from the respective websites of the organization involved in merger and acquisition as per the case study.

Tata Motors is one of the top global automobile manufacturing companies of the world. It is a $37 Billion organization. It has a diversified portfolio including an extensive range of cars, sports utility vehicles, trucks, buses and defence vehicles**.** It is a part of the USD128 billion Tata groups which was founded by Jamsetji Tata in 1868; Tata Motors is among the world's leading manufacturers of automobiles. It was established in 1945 and since then it has grown significantly in the past years with the strategies of joint venture, acquisition and launched new products in different market segments (i.e. commercial vehicles, passenger cars and utility vehicles).

Ford Motors Company (Ford) is one of the leading automakers and one of the largest multinational corporations in the automobile industry. The acquisition of Jaguar from British Leyland Limited to Ford Motors Company took place in 1989 for US$ 2.5 billion. After the acquisition of Jaguar, adverse economic conditions worldwide in the 1990s led to tough market conditions and a decrease in the demand for luxury cars was seen worldwide. There were evidences of decrease of sales of Jaguar in many markets, but on the other hand there were some markets like Japan, Germany, and Italy which recorded high sales.

History of Jaguar and Land Rover

Jaguar and Land Rover are the British brands acquired by Ford Motor Corporation in 1989. Land Rover specializes in four wheel segment vehicles. The name started its journey from a single vehicle that was named by the Rover Company as Land Rover in the year 1948. After some of the developments, this became a porch of a variety of four-wheel drive models. The company has had a history of number of ownership. The absorption of Rover Company by Leyland Motor Corporation took place in 1967. Leyland then announced a merger with the British Motor Holdings which successfully took place and it formed British Leyland. The new company demerged in the 1980s but in 1988 British Aerospace purchased the Land Rover (Rover Group). In the year 1994 BMW acquired The Rover Group but the merger broke down in 2000 and thereafter Ford Motor Company took over The Rover Group. Thereafter in the year 2008 Land Rover together with Jaguar cars was sold to Tata Motors.

Ford Sells Jaguar and Land Rover

Ford Motor Company, a well known and reputed name of automobile industry happened to be the world's third largest automobile company on the basis of vehicles sales worldwide but reported the largest annual loss in its history since its establishment in 1903. The Company incurred a loss of $12.8 billion and also stated that it would not return to profitability by the end of 2009. Allan Mulally after assuming the charge as the President and CEO of Ford, decided to dismantle the PAG. The company sold the Aston Martin sports car unit for US$ 931 million in the year 2007. Ford made an announcement for the consideration of selling JLR. Weak economy was the primary reason behind the sale of Jaguar and Land Rover.

The Deal

Tata Motors and Ford Motors came into an agreement on March 26, 2008 for the deal of Jaguar and Land Rover. Tata Motors paid US$ 2.3 billion in cash for acquiring the businesses of JLR. As part of the acquisition, Tata Motors did not inherit any of the debt liabilities of JLR – the acquisition did not involve any debt it was totally debt free.

The Benefits

On the acquisition of JLR, Ratan Tata, Chairman, Tata Group, said that they were very pleased at the prospect of Jaguar and Land Rover being an important part of their automotive business. They had huge respect for the two brands and would endeavor to preserve and build on their heritage and competitiveness, keeping their separate existing identities. They aimed to support their growth and allowing the management and employees to bring their experience and expertise to the growth of the business."Analysts presented their view that the acquisition of JLR, which had its presence globally and a repertoire of well established brands, would help Tata Motors become one of the major players in the global automobile industry.

Morgan Stanley reported that the acquisition of JLR by Tata Motors appeared to be negative for the organisation, as it had increased the volatility of earnings. In addition to this, Tata Motors had to incur a huge capital expenditure as per its decision to invest another US$ 1 billion in JLR which was an addition to the US$ 2.3 billion it had spent for the acquisition of JLR. Tata Motors also made some capital expenditure on the development and launch of Nano car and on a joint venture with Fiat for the manufacturing of some of the company's vehicles in India and Thailand. Due to both of these events and the downturn in the global automobile industry, it was expected to impact the profitability of the company in the near future.

Tata Motors' profits from the operations of India alone, declined by 51% in the financial year 2008-09 over the previous year. During the financial year ended March 2009 the company lost money and recorded a loss of $517 million on $14.7 billion in revenues, just from its India operations. Jaguar and Land Rover lost an additional $510 million in the period of 10 months Tata owned it until March 2009. In January 2009, Tata Motors made an announcement that due to insufficient funds it may be forced to roll over a part of the US$ 3 billion bridge loan after having repaid around US$ 1 billion. It was expected that the financial burden on Tata Motors would further increase with the pension liability of JLR coming up for evaluation in the month of April 2009.

Conclusion:

Based on the analysis of case study, it is clearly evident that the announcement of corporate actions play a significant role for the organizations and the merger and acquisition mentioned in the case study impacted Tata Motors, the acquirer significantly. The announcement of corporate actions brings a lot of material changes to the firms. It impacts various stakeholders significantly.

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