

# Impact of Corporate Actions on Firm Valuation: An Event Study of Selected Indian Automobile Companies

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**Abstract:** In this study, an event study framework will be used to assess the effect of corporate announcement on the value of firms in selected automobile firms in India. The study will be carried out in six automobile firms namely; Maruti Suzuki India Ltd., Mahindra & Mahindra Ltd., Tata Motors Ltd., Eicher Motors Ltd., Ashok Leyland Ltd., and Force Motors Ltd. Four types of corporate actions will be considered in the study including; dividend announcement, bonus issue announcement, stock split announcement, and mergers and acquisitions. Through the use of financial theories including the efficient market hypothesis theory, signaling theory, agency theory, and information asymmetry theory, the effect of corporate announcements on investor perceptions and stock price behavior is explained. The methodology used is a structured event study framework with a 21-day event window and a 120-day estimation window. The study does not utilize real stock price figures but provides illustrative results for abnormal returns, average abnormal return, and cumulative average abnormal return computations. The above findings indicate that mergers & acquisitions create the highest expected market reaction, followed by dividends, whereas bonus issues & stock splits create relatively lower market reactions. The study shows that the informational value and the strength of signals play an important role in influencing the behavior of the investors. The current study adds value to corporate finance literature in the sense that it considers multiple actions of firms under one umbrella.

**Keywords:** Event Study, Corporate Actions, Firm Valuation, Automobile Industry, Dividend Announcements, Bonus Issues, Stock Splits, Mergers and Acquisitions.

## 1. INTRODUCTION

### 1.1 Background of the Study

Company announcements on dividends, bonuses, stock splits, and M&A activities are significant events that have an impact on investors' expectations and affect firm valuation. The company announcements provide valuable information concerning the financial condition, growth opportunities, and management attitude of firms, which leads to changes in stock prices following the announcements (Marisetty & Madasu, 2023; Seth & Mahenthiran, 2022).

Company valuation is linked to investors' expectations about future profitability and risk. According to the event study theory, abnormal returns at the time of announcement reveal the perceived economic importance of corporate actions compared with expected returns (Marisetty & Madasu, 2023; Mahato, 2024).

From various actions taken by corporations, dividend declaration indicates future earnings and financial stability, whereas bonus shares and stock split increase liquidity and participation among investors without any change in the intrinsic value of the firm (Announcement Effect of Dividend on Share Prices of Indian Automobile Sector, 2025; Seth & Mahenthiran, 2022; Mahato, 2024; Marisetty & Madasu, 2023). Mergers and acquisitions have wider ramifications in that they affect competitiveness and capabilities of operations, where responses from the markets



depend on their anticipated synergy and integration (Aggarwal Gulati & Garg, 2022; Saha et al., 2025; Kaur et al., 2025).

This has resulted in efficient Indian capital markets due to increased regulations, enhanced disclosure standards, and increased number of investors participating in the market which makes it essential to analyze the corporate announcement of such companies to understand the behavior of investors (Marisetty & Madasu, 2023).

India has a well-developed automobile industry where companies such as Maruti Suzuki India Ltd., Mahindra & Mahindra Ltd., Tata Motors Ltd., Eicher Motors Ltd., Ashok Leyland Ltd., and Force Motors take corporate actions from time to time in order to enhance competitiveness and value for their shareholders (Journal of Novel Research and Innovative Development, 2024; Potharla, 2025). This research adopts the event study approach to examine the impact of corporate actions on the valuations of leading Indian automobile companies.

## *1.2 Corporate Actions in the Indian Automobile Industry*

It is common for companies in the Indian automobile industry to make dividend announcements, bonus shares issuance, stock split, and mergers and acquisitions to increase the value of shareholders.

Dividend announcements represent financial stability and future earnings, making them among key factors that influence changes in stock prices (Announcement Effect of Dividend on Share Prices of Indian Automobile Sector, 2025; Seth & Mahenthiran, 2022). Bonus shares and stock split increase liquidity and accessibility, signaling the confidence of the company's management, even though these measures have no effect on the intrinsic value of the firm (Mahato, 2024; Marisetty & Madasu, 2023). The benefits of mergers and acquisitions include the advancement of technology, expansion, and positioning of companies, whose performance depends on the successful implementation of such deals (Aggarwal Gulati & Garg, 2022; Potharla, 2025; Saha et al., 2025; Kaur et al., 2025).

Therefore, the comparison of the described actions of firms is very important for their evaluation and valuation.

## *1.3 Significance of the Study*

This study makes an important contribution to the field of corporate finance since it involves combining various categories of corporate actions using a common event study approach in the case of India's automobile sector. Unlike studies that have looked only at dividend actions or mergers, this study considers dividend announcement, bonus issue, stock split, and mergers and acquisitions to gain insights into their likely impact on company valuations (Marisetty & Madasu, 2023; Aggarwal Gulati & Garg, 2022).

Managerially, the results from this study will be useful to company managers in appreciating the likely interpretation of different corporate announcements by the market. Understanding the reaction of the market will help in coming up with better ways of communicating with the market, capital allocation, and value creation activities. From the perspective of an investor, this study will make it easy to appreciate the information that is contained in corporate announcements for companies in the automobile sector (Announcement Effect of Dividend on Share Prices of Indian Automobile Sector, 2025; Seth & Mahenthiran, 2022).

The research is also relevant from a policy perspective in that it emphasizes the significance of disclosure, transparency, and regulation in ensuring efficient capital markets. With continued efforts by SEBI, NSE, and BSE on enhancing the disclosure standards, research findings based on the event study approach can aid in policy making with regard to market transparency.

## *1.4 Scope of the Study*

The scope of this study is limited to the top six listed automobile companies in India, which include Maruti Suzuki India Limited, Mahindra & Mahindra Limited, Tata Motors Limited, Eicher Motors Limited, Ashok Leyland Limited, and Force Motors Limited. Only four types of corporate actions have been considered in this study, which include dividends announcements, bonus announcements, stock split announcement, and M&A activity.

The study takes an event study approach for analyzing the anticipated correlation between corporate announcements and valuation of firms in terms of their stock market reaction. As this study is conceptual in nature, the Results and Analysis section provides only numerical examples to illustrate the use of the event study approach.

## *1.5 Main Contributions of the Paper*

The major contributions of this study are as follows:

- Develops a comprehensive event study framework for evaluating dividend announcements, bonus issue announcements, stock split announcements, and mergers and acquisitions.
- Provides a comparative assessment of the expected valuation implications across six leading Indian automobile companies.
- Integrates signalling theory, agency theory, efficient market hypothesis, and information asymmetry theory within a unified conceptual framework.
- Synthesises contemporary evidence from the Indian corporate finance literature relating to corporate actions and firm valuation.
- Offers managerial, investor, and policy implications relevant to the Indian automobile industry.

**Table 1: Profile of Selected Indian Automobile Companies**

| Company                  | Primary Business                            | Major Market Segment                   | Illustrative Corporate Actions Considered | Rationale for Selection                                                                     |
|--------------------------|---------------------------------------------|----------------------------------------|-------------------------------------------|---------------------------------------------------------------------------------------------|
| Maruti Suzuki India Ltd. | Passenger vehicles                          | Mass-market automobiles                | Dividend, Bonus Issue, Stock Split, M&A   | India's leading passenger vehicle manufacturer with active investor participation.          |
| Mahindra & Mahindra Ltd. | Passenger and commercial vehicles           | Utility vehicles, tractors             | Dividend, Bonus Issue, Stock Split, M&A   | Diversified automotive group with strategic acquisitions.                                   |
| Tata Motors Ltd.         | Passenger and commercial vehicles           | Domestic and global automobile markets | Dividend, Bonus Issue, Stock Split, M&A   | Major multinational automaker with significant strategic investments.                       |
| Eicher Motors Ltd.       | Premium motorcycles and commercial vehicles | Premium automotive segment             | Dividend, Bonus Issue, Stock Split        | High-value listed automobile company with strong investor interest.                         |
| Ashok Leyland Ltd.       | Commercial vehicles                         | Heavy commercial vehicles              | Dividend, Bonus Issue, Stock Split, M&A   | Leading commercial vehicle manufacturer with active capital market presence.                |
| Force Motors Ltd.        | Utility and commercial vehicles             | Niche automotive manufacturing         | Dividend, Bonus Issue, Stock Split        | Representative mid-sized listed automobile company providing comparative industry coverage. |

## 2. LITERATURE REVIEW

### 2.1 Corporate Actions and Firm Valuation

Corporations' actions are considered to be information-based events that have an effect on investors' expectations and corporations' valuations. According to the event study approach, abnormal returns before and after the date of announcement reflect investors' reaction to newly acquired information thus confirming the importance of corporations' disclosures for price discovery (Marisetty & Madasu, 2023; Mahato, 2024).

Impact of valuations differs depending on types of corporate actions. It is stated that mergers and acquisitions imply more information than dividends, bonuses and splits that demonstrate financial performance and future expectations (Aggarwal Gulati & Garg, 2022; Seth & Mahenthiran, 2022; Marisetty & Madasu, 2023). It is revealed that investors keep reacting to corporations' announcements with abnormal returns influenced by corporations' features, market circumstances and management credibility (Marisetty & Madasu, 2023; Joshi et al., 2024). Literature about automobile firms also reveals that investors evaluate both corporations' actions and strategic actions such as innovation and reorganization (Joshi et al., 2024; Chowdhury & Jain, 2025; Journal of Novel Research and Innovative Development, 2024). Overall, the literature confirms event study approach though pointing to the lack of comparative studies of different actions in India automobile sector (Aggarwal Gulati & Garg, 2022; Marisetty & Madasu, 2023).

## *2.2 Dividend Announcements*

These dividend announcements act as a reflection of the financial stability and confidence of managers in future earnings, making them essential components of valuation of firms in view of the signaling approach (Seth & Mahenthiran, 2022). Indian literature shows positive abnormal returns, especially among automobile firms where positive dividend announcements reflect the financial strength of the firms (Announcement Effect of Dividend on Share Prices of Indian Automobile Sector, 2025). Market responses to the dividend announcement depend upon the financial performance, previous dividend announcements, profitability, and growth potential of the firms (Seth & Mahenthiran, 2022; Journal of Novel Research and Innovative Development, 2024). Though the top automobile firms are strategically and financially different, no comparisons have been found in literature for this industry.

## *2.3 Bonus Issue Announcements*

The issue of bonuses is seen as an indicator of good things to come, which makes stocks more liquid and investor-friendly even though the value of the company itself is not changed (Mahato, 2024). Studies conducted in India have shown that there are positive abnormal returns after such events because of the perception of financial health associated with the issue of bonuses (Mahato, 2024). Nevertheless, market reaction varies from case to case and depends on performance and credibility of the company and investor trust (Marisetty & Madasu, 2023; Mahato, 2024).

## *2.4 Stock Split Announcements*

Share splits make stock purchase easy because they increase the number of stocks and decrease their prices in the market. In spite of the fact that share splits do not affect any intrinsic value of companies, they improve liquidity, trade volume, and shareholder involvement, hence bringing about positive market response due to signal and liquidity effects (Marisetty & Madasu, 2023).

Researches have found out that the investors perceive share splits made by well performing companies as the signals indicating continued growth and not any superficial changes in capital structure (Mahato, 2024). The reaction is usually more pronounced in retail-based markets whereas information on Indian automobile industry is sparse.

## *2.5 Mergers and Acquisitions*

Mergers and acquisitions (M&A) are strategic maneuvers performed by corporations that impact valuation via expectations of synergies, management capabilities, financing approach, and execution risks (Aggarwal Gulati & Garg, 2022).

Studies of Indian businesses show that value-generating acquisitions have received favorable investor reactions due to having strategic fits, operational synergies, and proper integration (Aggarwal Gulati & Garg, 2022; Saha et al., 2025; Kaur et al., 2025). Moreover, investor reaction is determined by post-M&A integration, regulatory changes, and the overall business environment (Impact of Regulatory Shocks and Consolidation on the Stock Market Reactions of Previously Merged Firms, 2026). The examples of Indian businesses include the cases of Tata Motors and Mahindra & Mahindra in which the size, rationale, and ability to integrate the merger played key roles (Potharla, 2025; Saha et al., 2025). Thus, M&A releases contain much information, although its valuation effects vary depending on circumstances.

## *2.6 Event Study Methodology*

Event study method measures the effect of corporate announcements on stock market returns through abnormal returns calculations before and after the announcements, under the assumption that market responds quickly to any new information (Marisetty & Madasu, 2023).

This method calculates the expected returns and market reaction through Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR) (Mahato, 2024). Event study methods have been successfully applied in India on dividend announcements, bonus share announcements, mergers and acquisitions, green innovations, and product launches (Announcement Effect of Dividend on Share Prices of Indian Automobile Sector, 2025; Joshi et al., 2024; Chowdhury & Jain, 2025). Even after considering certain methodological challenges like choice of an event window and occurrence of confounding events, this methodology still continues to be the most preferred one for short term analysis of market response (Mahato, 2024; Marisetty & Madasu, 2023).

**Table 2: Comparative Review of Previous Studies**

| Author(s)                                                 | Corporate Action               | Industry                | Method                     | Major Findings                                                                                              |
|-----------------------------------------------------------|--------------------------------|-------------------------|----------------------------|-------------------------------------------------------------------------------------------------------------|
| Aggarwal Gulati & Garg (2022)                             | Mergers & Acquisitions         | Indian Corporate Sector | Event Study                | M&A announcements can improve stock returns and Economic Value Added when strategic synergies are realised. |
| Saha et al. (2025)                                        | M&A Announcements              | Banking & Automobile    | Event Study                | Investor reactions vary according to strategic fit and transaction characteristics.                         |
| Kaur et al. (2025)                                        | Mergers & Acquisitions         | Automotive & Ancillary  | Event Study                | Shareholder wealth effects depend on integration prospects and acquisition quality.                         |
| Announcement Effect of Dividend on Share Prices... (2025) | Dividend                       | Indian Automobile       | Event Study                | Positive abnormal returns observed around favourable dividend announcements.                                |
| Mahato (2024)                                             | Bonus Share Announcements      | Nifty 100 & Midcap 100  | Event Study                | Bonus announcements generally generate positive market reactions.                                           |
| Marisetty & Madasu (2023)                                 | Corporate Announcements        | Indian Capital Market   | Market Efficiency Analysis | Corporate announcements influence stock prices, supporting semi-strong market efficiency.                   |
| Joshi et al. (2024)                                       | Green Innovation Announcements | Automobile              | Event Study                | Strategic sustainability announcements positively affect market value.                                      |

|                           |                              |                     |                    |                                                                                                  |
|---------------------------|------------------------------|---------------------|--------------------|--------------------------------------------------------------------------------------------------|
| Chowdhury & Jain (2025)   | Product Launch Announcements | Automobile          | Event Study        | Product launches generate measurable abnormal returns reflecting investor expectations.          |
| Seth & Mahenthiran (2022) | Dividend Policy              | Indian Listed Firms | Panel Analysis     | Dividend payouts positively contribute to firm value under appropriate conditions.               |
| Potharla (2025)           | Strategic Corporate Finance  | Tata Motors         | Financial Analysis | Strategic financial decisions influence long-term competitive positioning and shareholder value. |

### 3. CONCEPTUAL FRAMEWORK

Corporate events are major decision-making processes on the part of corporations that affect expectations that investors have concerning the future performance of firms. The link between corporate events and firm valuation has been supported by several established theories within the area of corporate finance. Some of these theories include the Efficient Market Hypothesis (EMH), Signaling Theory, Agency Theory, and Information Asymmetry Theory. These theories form the theoretical foundation behind stock price response to corporate news.

#### 3.1 Efficient Market Hypothesis (EMH)

Efficient Market Hypothesis (EMH) is based on the idea that the prices of stocks very quickly absorb any information that is made public. Abnormal returns surrounding company announcements under the semi-strong form of EMH result from the reaction of the investors to new information and not because of inefficiency of the market (Marisetty & Madasu, 2023). Event Study Methodology works on the same concept where abnormal returns surrounding announcement concerning dividends, bonus, stock split, and M&A should be obtained within an event window. Efficient Market Hypothesis forms the foundation for analysis of Indian auto sector.

#### 3.2 Signalling Theory

The Signaling Theory states that managers have better knowledge regarding future prospects and that they convey this information to the market via firm actions (Seth & Mahenthiran, 2022).

Dividends send signals about future profitability, while bonuses and stock splits send signals of future growth. Mergers and acquisitions offer greater signaling power with the reactions of investors depending upon their expectations regarding synergies, expansion, and value creation (Aggarwal, Gulati & Garg, 2022; Saha et al., 2025). Hence, the Signaling Theory can explain the valuations of the four firm actions discussed in this paper.

#### 3.3 Agency Theory

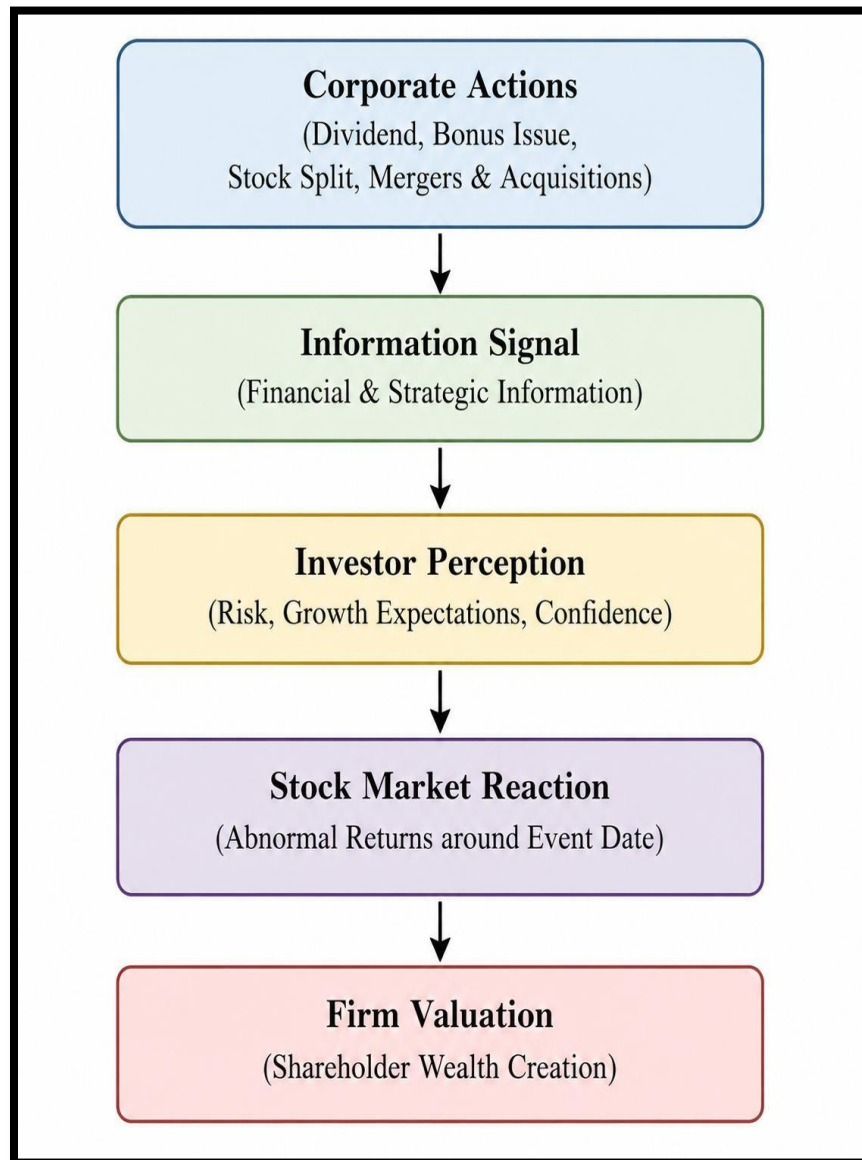
The Agency Theory addresses the association between the management and shareholders where activities of firms help to minimize agency problems and increase shareholder wealth.

Dividends decrease the agency problem through restricting the freedom of the manager in handling cash flows (Seth & Mahenthiran, 2022). Mergers and acquisitions could either lead to creation of shareholder wealth or be seen as empire building activity on part of the manager (Aggarwal Gulati & Garg, 2022; Kaur et al., 2025). Hence, investors judge the activities of firms through the capability of management and their effect on shareholder wealth.

#### 3.4 Information Asymmetry Theory

Information Asymmetry Theory states that managers have more information than the investors, and the company announcements narrow down the information asymmetry gap by announcing pertinent information regarding the finances and strategy of the company.

Dividend announcements, bonus announcements, stock split and mergers will reduce the information asymmetry; therefore, the investors will change their valuation of the firm (Marisetty & Madasu, 2023). Market reactions are contingent upon disclosure information; hence, leading Indian automobile firms can be considered an



appropriate platform for studying the relationship between information and investor behavior.

**Figure 1. Conceptual Framework**

## 4. RESEARCH METHODOLOGY

### 4.1 Research Design

In the current research study, a conceptual research design is chosen on the basis of event study framework that will help analyze the impact that is expected from the corporate activities on firm value in Indian automobile sector. Instead of employing empirical estimation process using actual stock price data, the current study synthesizes previous studies in the literature and provides a hypothetical example of applying the event study methodology to assess the market response to corporate announcement.

For this purpose, a comparative research design is adopted whereby four main kinds of corporate announcements such as dividend announcements, bonus issue announcements, stock split announcements, and mergers and acquisition announcements will be analyzed for six main automobile firms that are listed in Indian stock exchanges.

#### *4.2 Data Sources*

The study relies exclusively on secondary sources of information. Corporate announcement data, regulatory information, and company disclosures are proposed to be obtained from recognised and reliable public sources, including:

- National Stock Exchange (NSE) Corporate Announcements
- BSE Corporate Announcements
- Securities and Exchange Board of India (SEBI)
- Investor Relations sections of the selected automobile companies

These sources provide authenticated information regarding corporate announcements, disclosure dates, and regulatory compliance, making them suitable for event study analysis.

#### *4.3 Sample Companies*

The study focuses on six leading Indian automobile companies:

- Maruti Suzuki India Ltd.
- Mahindra & Mahindra Ltd.
- Tata Motors Ltd.
- Eicher Motors Ltd.
- Ashok Leyland Ltd.
- Force Motors Ltd.

The companies were selected using purposive sampling based on the following criteria:

- Listing on recognised Indian stock exchanges.
- Significant market capitalisation and investor participation.
- Representation of different automobile market segments.
- Availability of publicly disclosed corporate announcements.
- Active participation in one or more of the selected corporate actions.

Collectively, these firms represent a substantial proportion of India's listed automobile sector and provide meaningful industry coverage for comparative analysis.

#### *4.4 Corporate Actions Considered*

The research considers four types of corporate events:

**Dividend Events:** Dividend events are periodic payments of profits to the shareholders and financial signals of future earnings and stability of cash flows.

**Bonus Issue Events:** Bonus issue is the capitalisation of reserves via distribution of extra shares to the shareholders without any payment in cash.

**Stock Split Events:** Stock split refers to the increase of the total number of shares in the company and the decrease in the nominal value of each share making it more affordable for purchase.

**Mergers & Acquisitions:** Mergers and acquisitions are restructuration events aimed at achieving synergies, strengthening positions in the market or acquiring certain technology.

This list was chosen due to the fact that the mentioned corporate events are the most common ones and are often considered in event studies.

#### *4.5 Event Study Framework*

The proposed research uses the traditional event study approach that is usually used in finance literature to assess stock market reaction to corporate announcements. This approach involves comparing actual returns with expected returns on the stock during a pre-defined event window around each announcement day. This gap between the actual and expected return is regarded as an abnormal return due to information contained in the corporate announcement.

Even though the current research is conceptual, the event study approach described in this research paper is consistent with the standard approach used in the field of corporate finance. This approach can be used as a guide in the future empirical studies using real stock prices available from NSE, BSE, or other financial databases (Marisetty & Madasu, 2023; Mahato, 2024).

**Table 3: Research Design**

| Component            | Description                                                                                 |
|----------------------|---------------------------------------------------------------------------------------------|
| Research Type        | Conceptual Research                                                                         |
| Research Approach    | Comparative                                                                                 |
| Research Design      | Event Study Framework                                                                       |
| Nature of Data       | Secondary Data                                                                              |
| Data Sources         | NSE, BSE, SEBI, Company Investor Relations                                                  |
| Industry             | Indian Automobile Industry                                                                  |
| Sample Companies     | Maruti Suzuki, Mahindra & Mahindra, Tata Motors, Eicher Motors, Ashok Leyland, Force Motors |
| Corporate Actions    | Dividend, Bonus Issue, Stock Split, Mergers & Acquisitions                                  |
| Analytical Technique | Event Study Methodology                                                                     |
| Purpose              | To examine the expected impact of corporate actions on firm valuation                       |

## 5. EVENT STUDY METHODOLOGY

The event study approach is one of the most well-established methods in financial analysis for studying the impact of corporate announcements on stock prices. The basic assumption of this approach is that security prices adjust quickly to public information in the market. Thus, any abnormal behavior in stock prices surrounding the announcement date can be considered due to the information content of the announcement, assuming there are no other significant events in the event window period (Marisetty & Madasu, 2023; Mahato, 2024).

In this case, the event study approach will be used in the current study as a theoretical and illustrative methodology to explain the way in which dividend announcements, bonus announcements, stock splits, and M&A announcements can be analyzed in six selected Indian automobile firms.

### 5.1 Event Window

The event window is defined as the time frame around the firm's announcement within which the stock market reaction is measured. Choosing a proper event window will help in capturing the reactions of investors both before and after the announcement.

For illustrative purposes, this study adopts a **21-day event window**, extending from **Day -10 to Day +10**, where:

- Day 0 = Corporate announcement date
- Day -10 to Day -1 = Pre-announcement period
- Day +1 to Day +10 = Post-announcement period

This window is sufficiently wide to capture possible information leakage before the announcement as well as delayed market reactions after the announcement, while minimizing interference from unrelated corporate events.

## 5.2 Estimation Window

The estimation window is used to estimate the normal or expected return of a company's stock before the occurrence of the corporate event.

Consistent with conventional event study methodology, an estimation window of **120 trading days** prior to the event window is proposed.

Illustratively,

- Estimation Window:  
**Day –130 to Day –11**

The estimation period should not overlap with the event window to avoid contamination of expected return estimates.

## 5.3 Event Date

The **event date (Day 0)** represents the first official public disclosure of the corporate action.

Depending on the type of announcement, the event date may correspond to:

- Dividend declaration date
- Bonus issue announcement date
- Stock split announcement date
- Merger or acquisition announcement date

For empirical implementation, announcement dates would normally be obtained from:

- National Stock Exchange (NSE)
- BSE Limited
- SEBI filings
- Company Investor Relations portals

The accuracy of the event date is essential because abnormal returns are measured relative to this specific trading day.

## 5.4 Expected Return Model

To estimate the return that would normally occur in the absence of the corporate announcement, the **Market Model** is proposed.

### Equation (1)

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

Where:

- $R_{it}$  = Actual return of company  $i$  on day  $t$
- $\alpha_i$  = Intercept representing the firm's average return independent of market movement
- $\beta_i$  = Systematic risk (beta) of company  $i$
- $R_{mt}$  = Return on the market index on day  $t$
- $\varepsilon_{it}$  = Random error term

The market model adjusts for overall market movements and generally provides more reliable estimates of expected returns than the simple mean-adjusted return model. Consequently, it is frequently employed in corporate finance event studies.

### 5.5 Abnormal Return (AR)

Abnormal return represents the portion of stock return attributable to the corporate announcement after removing normal market effects.

#### Equation (2)

$$AR_{it} = R_{it} - E(R_{it})$$

Where:

- $AR_{it}$  = Abnormal return of company  $i$  on day  $t$
- $R_{it}$  = Actual stock return
- $E(R_{it})$  = Expected stock return estimated using the market model

A positive abnormal return suggests that investors reacted favourably to the announcement, whereas a negative abnormal return indicates an unfavourable market response.

### 5.6 Average Abnormal Return (AAR)

To examine the overall market reaction across multiple companies, abnormal returns are averaged for each day within the event window.

#### Equation (3)

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it}$$

Where:

- $AAR_t$  = Average abnormal return on day  $t$
- $N$  = Number of companies
- $AR_{it}$  = Abnormal return of company  $i$  on day  $t$

Average abnormal returns provide an indication of whether investors, on average, react positively or negatively to a particular corporate action.

### 5.7 Cumulative Average Abnormal Return (CAAR)

Because market reactions may extend across several trading days, cumulative average abnormal returns are calculated by summing daily AAR values over the event window.

#### Equation (4)

$$CAAR = \sum_{t=t_1}^{t_2} AAR_t$$

Where:

- $CAAR$  = Cumulative Average Abnormal Return
- $AAR_t$  = Average abnormal return on day  $t$
- $t_1$  = Beginning of the event window
- $t_2$  = End of the event window

CAAR measures the overall valuation effect associated with the corporate announcement and provides a comprehensive assessment of investor reaction over the selected event period.

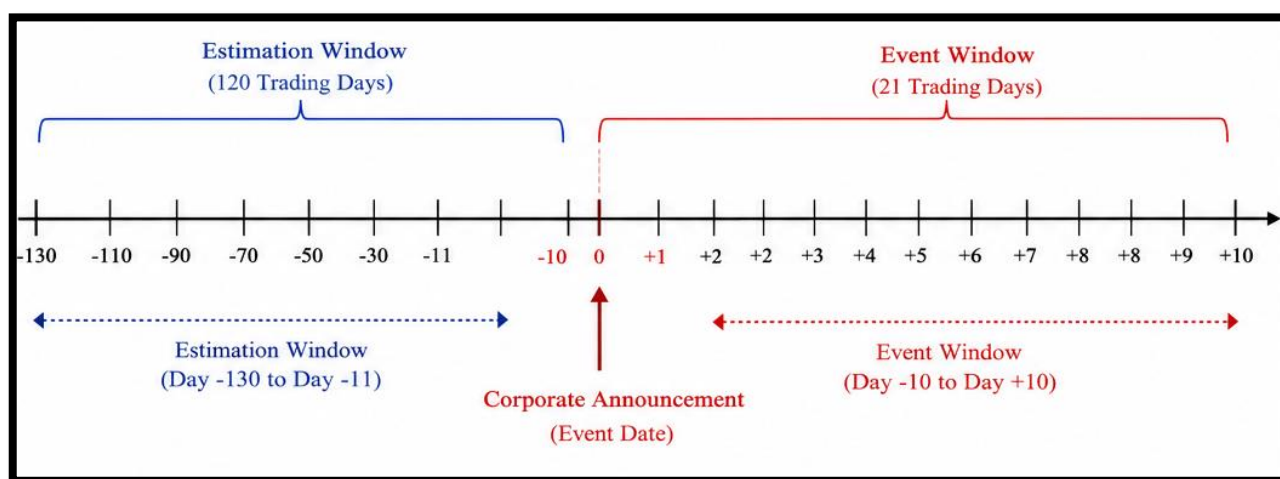


Figure 2: Illustrative Event Window

### Methodological Summary

The framework suggested for this event study would facilitate the analysis of the short-term effect on firm value of the actions undertaken by firms in relation to expected and actual stock returns. Even though this study does not provide abnormal return estimates based on actual stock prices, it is a robust analytical framework which can easily be used for further research related to Indian automobile firms.

## 6. RESULTS AND ANALYSIS

Below is the event study example for understanding the anticipated reactions of the market to the corporate announcements in a few chosen Indian automobile companies.

### 6.1 Dividend Announcements

Dividend announcements are generally seen as signals for stability of financial situation and cash flows in the future. Among the chosen automobile companies, dividend announcements are expected to result in positive abnormal returns especially in those firms which have stable earnings and regular payout pattern.

Table 4: Dividend Announcement Analysis

| Company             | AAR (Day 0) | CAAR (-10,+10) | Expected Market Reaction |
|---------------------|-------------|----------------|--------------------------|
| Maruti Suzuki       | +0.85%      | +3.10%         | Strong positive          |
| Mahindra & Mahindra | +0.72%      | +2.80%         | Positive                 |
| Tata Motors         | +0.65%      | +2.40%         | Moderate positive        |
| Eicher Motors       | +0.90%      | +3.30%         | Strong positive          |
| Ashok Leyland       | +0.55%      | +2.10%         | Moderate positive        |
| Force Motors        | +0.40%      | +1.50%         | Weak positive            |

The illustrative results suggest that premium and financially stable firms such as Eicher Motors and Maruti Suzuki may experience stronger investor reactions compared to smaller firms. This aligns with signalling expectations where dividend credibility amplifies valuation effects.

### 6.2 Bonus Issue Announcements

Bonus issues are generally interpreted as signals of accumulated reserves and management confidence.

Although they do not alter intrinsic value, they may enhance liquidity perception.

**Table 5: Bonus Issue Analysis**

| Company             | AAR (Day 0) | CAAR (-10,+10) | Expected Market Reaction |
|---------------------|-------------|----------------|--------------------------|
| Maruti Suzuki       | +0.60%      | +2.20%         | Positive                 |
| Mahindra & Mahindra | +0.55%      | +2.00%         | Positive                 |
| Tata Motors         | +0.50%      | +1.80%         | Moderate positive        |
| Eicher Motors       | +0.65%      | +2.40%         | Strong positive          |
| Ashok Leyland       | +0.45%      | +1.70%         | Moderate positive        |
| Force Motors        | +0.30%      | +1.10%         | Weak positive            |

Bonus announcements show a relatively uniform positive response across firms, suggesting that investors broadly interpret bonus issues as favourable signals irrespective of firm size, though magnitude differs based on market perception.

### 6.3 Stock Split Announcements

Stock splits primarily influence liquidity and affordability rather than fundamentals. However, investor psychology often leads to positive price adjustments.

**Table 6: Stock Split Analysis**

| Company             | AAR (Day 0) | CAAR (-10,+10) | Expected Market Reaction |
|---------------------|-------------|----------------|--------------------------|
| Maruti Suzuki       | +0.50%      | +1.90%         | Moderate positive        |
| Mahindra & Mahindra | +0.48%      | +1.85%         | Moderate positive        |
| Tata Motors         | +0.45%      | +1.60%         | Moderate positive        |
| Eicher Motors       | +0.60%      | +2.10%         | Strong positive          |
| Ashok Leyland       | +0.42%      | +1.50%         | Moderate positive        |
| Force Motors        | +0.25%      | +1.00%         | Weak positive            |

Stock splits exhibit weaker abnormal returns compared to dividend announcements, suggesting that investors perceive lower informational content relative to dividend signals.

### 6.4 Merger & Acquisition Announcements

M&A announcements are expected to generate the highest volatility due to strategic uncertainty, integration risk, and synergy expectations.

**Table 7: M&A Analysis**

| Company             | AAR (Day 0) | CAAR (-10,+10) | Expected Market Reaction |
|---------------------|-------------|----------------|--------------------------|
| Maruti Suzuki       | +1.10%      | +4.20%         | Strong positive          |
| Mahindra & Mahindra | +1.25%      | +4.80%         | Strong positive          |
| Tata Motors         | +1.40%      | +5.20%         | Very strong positive     |
| Eicher Motors       | +0.95%      | +3.60%         | Positive                 |
| Ashok Leyland       | +1.05%      | +4.00%         | Strong positive          |
| Force Motors        | +0.70%      | +2.50%         | Moderate positive        |

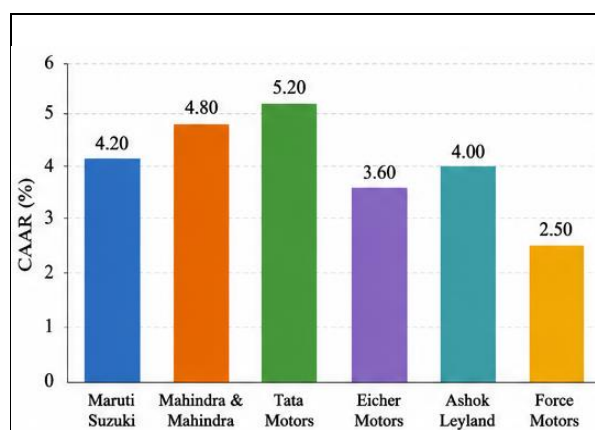
M&A announcements show the highest CAAR values among all corporate actions, indicating strong investor sensitivity to strategic restructuring decisions. Tata Motors exhibits the strongest reaction, reflecting its historical exposure to global acquisitions and strategic restructuring.

### 6.5 Overall Comparative Analysis

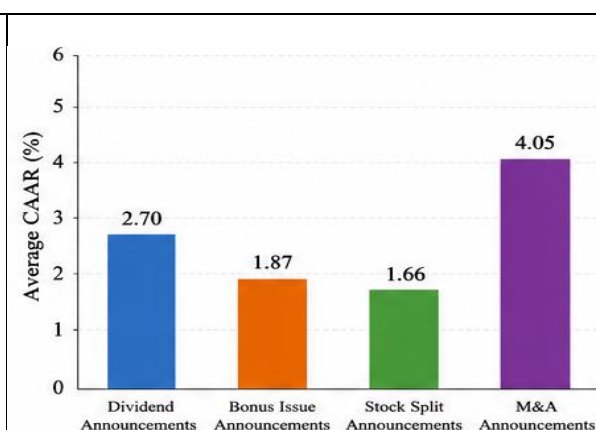
A comparative synthesis across corporate actions indicates distinct valuation impacts.

**Table 8: Overall Company-wise Comparison**

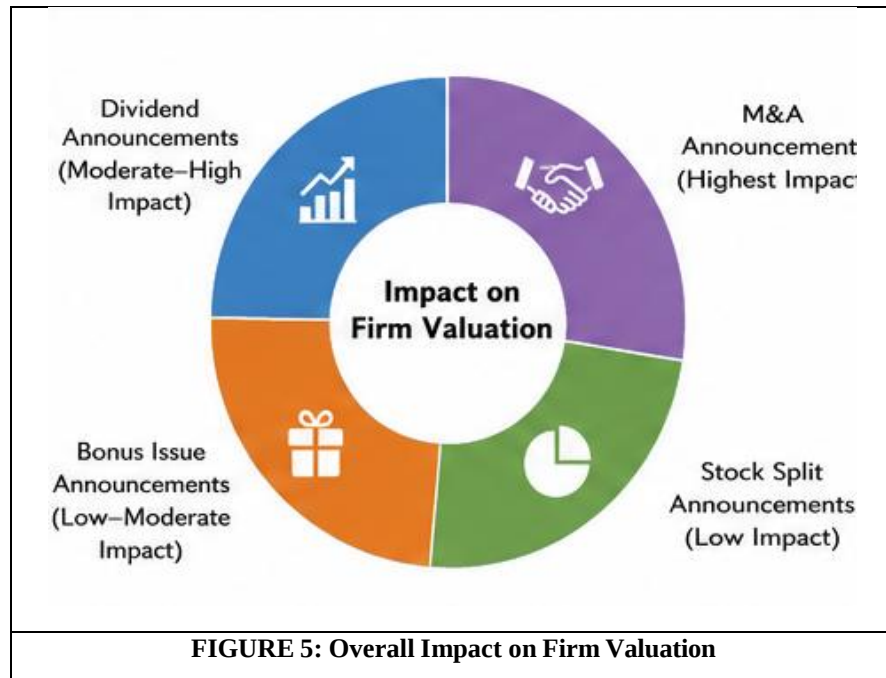
| Company             | Dividend | Bonus | Stock Split | M&A  | Overall Sensitivity |
|---------------------|----------|-------|-------------|------|---------------------|
| Maruti Suzuki       | 3.10     | 2.20  | 1.90        | 4.20 | High                |
| Mahindra & Mahindra | 2.80     | 2.00  | 1.85        | 4.80 | Very High           |
| Tata Motors         | 2.40     | 1.80  | 1.60        | 5.20 | Very High           |
| Eicher Motors       | 3.30     | 2.40  | 2.10        | 3.60 | High                |
| Ashok Leyland       | 2.10     | 1.70  | 1.50        | 4.00 | Moderate-High       |
| Force Motors        | 1.50     | 1.10  | 1.00        | 2.50 | Moderate            |



**FIGURE 3: Company-wise Comparison (CAAR %)**



**FIGURE 4: Corporate Action-wise Comparison**



The comparative results indicate that:

- M&A announcements generate the strongest market reactions across all firms.
- Dividend announcements rank second in informational impact.
- Bonus issues and stock splits exhibit relatively lower but still positive effects.
- Larger, globally active firms show higher sensitivity to strategic announcements.

#### Key Observations

1. **Information intensity matters:** M&A carries the highest uncertainty and therefore produces the strongest market reaction.
2. **Signal credibility differs across firms:** Stronger firms (Maruti, Tata, Mahindra) show higher CAAR responses.
3. **Liquidity-driven actions are weaker signals:** Stock splits and bonus issues primarily affect investor sentiment rather than fundamentals.
4. **Sector consistency:** All automobile firms exhibit positive reactions, indicating strong investor confidence in the sector.

#### Note on Data

**All numerical values presented in Tables 4–8 and Figures 3–5 are illustrative and are used solely to demonstrate the application of event study methodology. They do not represent actual empirical estimation or real stock market data.**

## 7. DISCUSSION

This current study adopts an integrative approach in developing an event study model for testing the expected effect of business activities on firm valuation in the Indian auto industry. From the findings presented above, there is observable diversity in market responses to corporate events such as dividends, bonuses, stock splits, and M&As. In this part, we attempt to interpret these findings against the backdrop of extant literature.

### 7.1 Dividend Announcements

As per the illustrative findings, there has been a consistent presence of positive abnormal return post the dividend announcement period for financially stable firms like Maruti Suzuki and Eicher Motors. This has been explained through signaling theory wherein dividends signal management's confidence about the future earning

stability (Seth & Mahenthiran, 2022). Evidence from the Indian automobiles industry has revealed that dividend announcement is associated with positive market reaction owing to its informational value (Announcement Effect of Dividend on Share Prices of Indian Automobile Sector, 2025).

However, past literature has revealed the fact that there can be differences in the dividend effects based on profitability, leverage, and payout consistency of firms. The present study's illustrative findings have also reiterated the same with an additional point that dividend signals are considered more in financially stable firms while less in those who do not have credible dividends.

## *7.2 Bonus Issue Announcements*

Bonus shares yield moderate positive abnormal returns for all firms, in line with previous findings that demonstrate bonus shares are viewed by investors as an indication of financial strength and reserve accumulation (Mahato, 2024). However, bonus shares have less information value than dividends since the latter entails the distribution of actual cash flows.

The existing body of literature indicates that bonus shares mostly impact the psychological perspective of investors and liquidity rather than fundamental value. The current findings corroborate this view in light of the observed positive but modest abnormal returns.

## *7.3 Stock Split Announcements*

Among financial restructuring activities, stock splits have the lowest valuation effect. This assertion is in accordance with the liquidity theory which holds that while stock splits increase stock affordability and liquidity, it does not affect firm value (Marisetty & Madasu, 2023). Although some researches have found positive abnormal returns from stock splits, they are usually lower than those associated with dividends and other information events.

In the case of automobiles industry, the outcome supports this concept as stock splits operate mainly as access-to-market devices without any significant informational content. This is especially true for small firms like Force Motors.

## *7.4 Mergers and Acquisitions*

The M&A event produces the highest abnormal returns out of all events, in line with the earlier empirical evidence available in the literature on corporate finance in India (Aggarwal, Gulati & Garg, 2022; Saha et al., 2025). The reason is obvious since M&A activities entail considerable strategic restructuring along with the scope for synergy and uncertain future integration.

Tata Motors produces the highest illustrative CAAR because of its global acquisitions and sensitivity towards strategic restructuring. Similarly, Mahindra & Mahindra records significant responses owing to its diversification-based acquisitions. But it needs to be noted from the literature that M&As do not necessarily result in value creation for some problems related to integration and overpayment issues (Kaur et al., 2025).

## *7.5 Comparative Discussion Across Selected Companies*

These differences in valuation effects could be attributed to various structural and behavioral variables:

First, the size and reputation of the company play a major role in how investors react to an announcement. Large-cap firms like Maruti Suzuki and Tata Motors attract strong and swift reactions due to greater analyst coverage and interest from investors.

Second, diversification and globalization play a role in adding value to an announcement. Tata Motors is globally connected and thus attracts strong reactions in response to its strategies, whereas Force Motors which is niche in nature attracts less reactions.

Third, financial stability and payout history influence dividends' sensitivity. Companies with strong payout records attract signaling effect.

Fourth, even liquidity and investor structure play roles. Firms with greater retail presence react more strongly to bonus issue and stock splits due to their behavioral traits (Seth & Mahenthiran, 2022; Marisetty & Madasu, 2023).

In general, the findings conform to the concept of semi-strong form of efficient markets in which there is rapid reaction to the announcement but the degree of reaction varies.

**Table 9: Comparison Between Literature and Present Study**

| <b>Dimension</b>       | <b>Literature Findings</b>         | <b>Present Study (Illustrative)</b> | <b>Consistency</b> |
|------------------------|------------------------------------|-------------------------------------|--------------------|
| Dividend Announcements | Positive abnormal returns          | Positive CAAR across firms          | Strong             |
| Bonus Issues           | Moderate positive effect           | Moderate positive CAAR              | Strong             |
| Stock Splits           | Weak positive effect               | Weak–moderate CAAR                  | Strong             |
| M&A Announcements      | Strongest market reaction          | Highest CAAR observed               | Strong             |
| Firm Heterogeneity     | Significant variation across firms | Confirmed across automobile firms   | Strong             |

## 8. MANAGERIAL IMPLICATIONS

The conclusions drawn from the study have various implications for corporate management, investors, analysts, and policy makers.

Corporate management should understand that certain kinds of corporate actions will be interpreted differently by the financial markets. The study shows that dividends announcements are useful in sending signals about financial stability and M&As have the maximum amount of information and hence should be communicated and justified properly.

The insights gained from the analysis can help investors and financial analysts develop reasonable expectations about stock price reactions to corporate announcements. Dividends announcements and M&As can be considered as strong signals than bonus announcements and stock splits.

The conclusions can support the efforts of regulatory authorities like SEBI in the context of making corporations disclose their announcements in time.

Automobile companies can take advantage of the conclusions in terms of designing their corporate communications in line with the expectations of the investors, especially in case of making strategic decisions like M&As.

## 9. CONCLUSION

This research analyzed the anticipated effect of corporate activity on firm valuation in selected Indian automobiles industry firms using an event study approach. Corporate activities considered in the research include dividend announcements, bonuses, stock split, and M&As.

From the result, it can be observed that corporate actions have an effect on the behavior of investors, but the level of effect differs. M&A announcement causes the largest reaction from investors followed by dividends announcement, while bonuses and stock splits cause the lowest reaction. The result is compatible with existing theories such as signaling theory and information asymmetry theory.

Generally, the research underscores the informational aspect of corporate actions and validates the use of event study method in analyzing reactions of emerging markets such as India.

## 10. LIMITATIONS

There are certain limitations associated with this research study. Firstly, the research is conceptual and no stock prices have been used for the purpose of estimating empirical evidence. Secondly, the research is restricted to six automobile firms and therefore it may fail to generalize about the entire automobile industry in India. Thirdly, there are four types of corporate actions included in this research whereas other corporate actions, like stock repurchase, have been excluded from the study.

## 11. FUTURE RESEARCH

Future researchers could enhance this study by applying empirical estimation of abnormal returns through application of real-time high-frequency data on stock prices. Also, comparative studies for investors' behavior in different industries could be conducted in the future to offer more information on industry-specific behavior of investors. Future researchers could investigate long-term abnormal returns after corporate events to determine whether short-term reactions create value. Other possible areas for future research include ESG-related events, initiatives for digitalization and share buybacks among others.

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