AN EMPIRICAL ANALYSIS ON SEMI STRONG FORM EFFICIENCY IN SELECT FMCG COMPANIES LISTED IN NSE

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ABSTRACT

This study aims to examine the semi-strong form efficiency in FMCG sector. The FMCG sector is said to be efficient and quickly adjust to all publicly available new information in an unbiased fashion, so that any investors should not earn excess return by trading on that information. The major objectives of this study are to analyze the semi-strong form efficiency in FMCG sector, and to examine the stock market reaction to dividend announcement, to evaluate the risk of the stocks in particular index and to offer valuable suggestions to the investors to take the right investment decision.

The study was conducted with the secondary data which was already published during the previous financial year (2013-14). An event study was conducted and dividend announcement was taken as the event. The purpose of the study was to find out whether the dividend announcement has impacted the NSE. The study is to prove semi-strong form of market efficiency in select FMCG companies listed in NSE. The select FMCG companies are Colgate Palmolive Ltd, Dabur India Ltd, Emami Ltd, Hindustan Unilever Ltd, McLeod Russel India Ltd, Procter & Gambel Hygiene & Health Care Ltd (P&G), Tata Global Beverage Ltd and United Breweries Ltd.

It has been found that some companies were influenced positively and some other companies have been influenced negatively after the dividend announcement. These results confirm
the theoretical background regarding the impact of dividend announcement on stock prices. The semi-strong form efficiency therefore is tested and proved.

**Keywords**: Semi-strong form efficiency, CNX NIFTY, CNX FMCG, Beta value, T-statistics, Excess Return, Average excess return.

**INTRODUCTION ABOUT THE TOPIC**

In India, after the result of globalization, there is a tremendous growth in the development of several new as well as old companies in different sector, which are all influences the Indian stock market especially the National Stock Exchange index that is NIFTY. During that time, many companies have started to earn more profit and also share this profit as form of dividend to their equity share holders. Hence the name of the company which declares the dividend attracts many investors and it make changes on the price of that particular company’s stock. Due to this reason, the company which releases the dividend declaration information to public makes quick adjustments on prices of that company’s stock. This shows any publicly available information should not create any biased situation to both companies and also for the investors. In the view of semi-strong from efficiency, any publicly available information will not allow the investors to earn excess returns from using trading rules. This research study aims to examine the volatile movement of select securities and examine it with the benchmark index. Finally, the study aims to find out the excess return generated by that selected organization (positive or negative) regarding the particular event.

**EFFICIENT MARKET HYPOTHESIS (EMH)**

In 1960’s the paper titled “Efficient Capital Market: A review of theory and Empirical work” was published by Professor Eugene Fama. An investment theory called Efficient Market Hypothesis (EMH), which explains the general assumption about the three forms of stock market efficiency. This theory informs that for anyone, it is impossible to earn the profit in excess of average return by trading in the stock market (Eugene F. Brigham, 2010) explained the three forms as:-

- **Weak form of EMH** argues that the current market prices reflects all the information about the past price movements.
- **Semi-Strong form of EMH** implies that all the public information is calculated into a stock’s current share prices. It precludes the profitability of both technical and fundamental analysis.
- **Strong form of EMH** states that current market prices reflect all relevant information, whether publicly available or privately held. If this form exits, even the insiders would not able to earn abnormal return in the Indian equity Market.

**LITERATURE REVIEW**

**M. E. NareshBabu (2013)** the study focuses on the aspect how far the Indian stock market is efficient and reveals the form of efficiency. Efficient Market Hypothesis (EMH) counters the Fundamental Analysis and Technical Analysis. Fundamental Analysts feel that the prices of the shares can be expected with the analysis of certain factors such as Economy, Industry and Company.
The study focuses on the aspect how far the Indian stock market is efficient and reveals the form of efficiency. This study reveals that the Indian Cement industry is efficient in Weak form.

Azeem Ahmad Khan (2012) The objective of the study is to test the efficiency of the Indian Stock Market with respect to the announcement of Mergers and Acquisitions (M&As) in the Indian Banking Sector by employing the Standard Risk Adjusted Event Study Methodology. The study proved that Indian stock market shows that the market is efficient in its semi strong form as both the historical and publically available Information.

Prithul Chakraborty (2011) the study aims to examine whether the Indian stock market is pricing efficient in its semi-strong form. Such examination is made in the context of the price reaction to the announcement of stock splits witnessed by 17 constituent stocks of S&P CNX Nifty during the period from February 2000 to January 2010 by application of the market model of the event study methodology. These results support the semi-strong form of pricing efficiency of the market.

J. Clement Sudhahar (2010) A capital market is said to be efficient with respect to an information item if the prices of securities fully impound the return implications of that item. The results of the study in Indian capital market for the IT sector, in general, are efficient, but not perfectly efficient, to the announcement of bonus issue.

RESEARCH OBJECTIVES

To Study the semi-strong form efficiency in select FMCG companies listed in NSE, To examine the stock market reaction to dividend announcement, To evaluate the risk of the stocks in particular index, To offer valuable suggestions to the investors to take the right investment decision.

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. The research is to test the impact of dividend announcement on Stock Market. Based on literature review it is found that there is a significant impact of publicly available information and stock prices. The research was conducted using the secondary data from the NSE website. Various tools have applied such as Beta, excess return, average excess return and T- statistics has been used. Data is taken for a period of 90 days (i.e.) 45 days before the announcement of dividend and 45 days after the announcement of dividend. Eight FMCG Companies listed in NSE where taken for the study.

<table>
<thead>
<tr>
<th>SCRIPT NAME</th>
<th>BETA VALUE</th>
<th>EXCESS RETURN</th>
<th>AVERAGE EXCESS RETURN</th>
<th>T-SATISTIC</th>
<th>STANDEARED ERROR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colgate Palmolive ltd</td>
<td>-0.01357</td>
<td>6.46</td>
<td>0.07</td>
<td>.000</td>
<td>5.71</td>
</tr>
<tr>
<td>Dabur India ltd</td>
<td>0.005713</td>
<td>0.83</td>
<td>0.09</td>
<td>.415</td>
<td>1.30</td>
</tr>
<tr>
<td>Emami ltd</td>
<td>0.023737</td>
<td>-5.19</td>
<td>-0.05</td>
<td>.000</td>
<td>1.58</td>
</tr>
<tr>
<td>Hindustan Unilever ltd</td>
<td>0.017721</td>
<td>-26.97</td>
<td>-0.29</td>
<td>.000</td>
<td>8.67</td>
</tr>
<tr>
<td>McLeod Russel India ltd</td>
<td>-0.00064</td>
<td>-20.02</td>
<td>-0.22</td>
<td>.000</td>
<td>2.16</td>
</tr>
<tr>
<td>(P&amp;G) limited</td>
<td>0.156688</td>
<td>-9.13</td>
<td>0.10</td>
<td>.000</td>
<td>21.76</td>
</tr>
<tr>
<td>Tata global beverages ltd</td>
<td>0.013684</td>
<td>27.93</td>
<td>2.51</td>
<td>.000</td>
<td>1.50</td>
</tr>
<tr>
<td>United breweries ltd</td>
<td>0.013829</td>
<td>5.08</td>
<td>0.05</td>
<td>.937</td>
<td>12.74</td>
</tr>
</tbody>
</table>
FINDINGS

The beta value of the script Colgate Palmolive Ltd is -0.01357 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for Colgate Palmolive Ltd is .000, this results indicates that the event has made significant impact on the trading market especially in NIFTY indices and the excess return of Colgate Palmolive Ltd is 6.46. It indicates this stock has performed well so it is a good sign to sell this stock in the market, for getting good return.

The beta value of the script Dabur India Ltd is 0.005713 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for Dabur India Ltd is .415, this results indicates that the event has made no significant impact on the trading market especially in NIFTY indices and the excess return of Dabur India Ltd is 0.83. It indicates this stock has performed well so it is a good sign to sell this stock in the market, for getting good return.

The beta value of the script Emami Ltd is 0.023737 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for Emami Ltd is .000, this results indicates that the event has made significant impact on the trading market especially in NIFTY indices and the excess return of Emami Ltd shows negative value is -5.19. It indicates this stock has poorly traded in the market so it is a good sign to purchase this stock in the market.

The beta value of the script Hindustan Unilever Ltd is 0.017721 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for Hindustan Unilever is .000, this results indicates that the event has made significant impact on the trading market especially in NIFTY indices and the excess return of Hindustan Unilever Ltd shows negative value is -26.97. It indicates this stock has poorly traded in the market so it is a good sign to purchase this stock in the market.

The beta value of the script McLeod Russel India Ltd is -0.00064 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for McLeod Russel India Ltd is .000, this results indicates that the event has made significant impact on the trading market especially in NIFTY indices and the excess return of McLeod Russel India Ltd shows negative value is -20.02. It indicates this stock has poorly traded in the market so it is a good sign to purchase this stock in the market.

The beta value of the script P & G Ltd is 0.156688 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for P & G Ltd is .000, this results indicates that the event has made significant impact on the trading market especially in NIFTY indices and the excess return of P & G Ltd shows negative value is -9.13. It indicates this stock has poorly traded in the market so it is a good sign to purchase this stock in the market.

The beta value of the script Tata Global Beverage Ltd is 0.013684 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for
Tata Global Beverage Ltd is 0.000, this results indicates that the event has made significant impact on the trading market especially in NIFTY indices and the excess return of Tata Global Beverage Ltd shows positive value is 27.93. It indicates this stock has performed well so it is a good sign to sell this stock in the market, for getting good return.

The beta value of the script United Breweries Ltd is 0.013829 which means the beta value is less than 1. From this it is inferred that the script is less volatile and the company has underperform (i.e.) less volatile during the event of dividend announcement and T-statistics value for United Breweries Ltd is .937, this results indicates that the event has made no significant impact on the trading market especially in NIFTY indices and the excess return of United Breweries Ltd is 5.08. It indicates this stocks has performed well in the market during the event of dividend announcement period and also a good sign to sell this stocks in the market, for getting good return.

CONCLUSION

The semi-strong form of market implies that the market performance is based on the publicly available information. Therefore an investment strategy can be formulated based on publicly available information to prove semi-strong form of market efficiency in select FMCG companies listed in NSE. An event study was conducted and dividend announcement was taken as the event. It has to be found that some companies were influenced positively and some other companies have been influenced negatively after the dividend announcement. These results confirm the theoretical background regarding the impact of dividend announcement on stock prices. The semi-strong form efficiency therefore is tested and proved.

REFERENCE