

“A STUDY ON IMPACT OF DEMONITIZATION ON INDIA STOCK MARKET”

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ABSTRACT : The main objective behind this study is identify the impact of demonetization on Indian stock market and also find out the fluctuation of shares of selected companies during the pre and post announcements of demonetization. In this research, automobile, IT, pharmaceuticals, realistic companies and public & private banks are considered. All companies are selected on basis of capital market. All companies share price have been collected from NSE website respectively. Average, standard deviation, correlation, covariance, coefficient variation, hypothesis, paired t-test as a statistical tools and trend analysis has been used. This study concludes that possibility of these effects being temporary may seem to be a ray of hope. The stock market in India has fallen a bit more in comparison with emerging Asian markets. The significant impact of the demonetization will be in the unorganized sector which isn't reflected in the markets.

Index Terms: Demonetization, share price, impact, stock market

1. Introduction

Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not acceptable as valid currency. The same thing happens with the Rs. 500 and Rs. 1000 note demonetization. On 8th November 2016, Government of India had announced that from today onward rupees 500 and 1000 rupee note will not be a legal tender. This means that 500 and 1000 rupee note will be accepted by anyone except the organization declared by government. They can change the currency from the banks and post offices till 30th December 2016.

2. Literature Review

Dr. P. Chellasamy and Anu K. M. (June 2017) conducted a research to analyses the effects of demonetization on Indian stock market with special reference to sectoral indices in NSE. The aim of the research was to investigate the impact of demonetization nifty sectoral indices. The study conducted using least square regression analysis with the help of secondary data. The study conclude that the there is a wide spread negative returns across sectors after demonetization which reflects the immediate sentiments attached with the overall economic activity **Angelin Kiruba and S. Vasantha (2018)** conducted a research to analyses the impact of demonetization on stock market in Indian industry. The objectives of the study were to measure the returns of the selected stock, pre and post demonetization, using holding period return. For this study they used secondary data. The study methodology is used with stock price to measure the stock market reaction by creating cumulative abnormal returns. This study proves that demonetization had no impact on stock market. **Patil Anoop, Parab Narayan and Y. V. Reddy (2017)** examine the impact of demonetization on the Indian stock market: sectoral evidence using GARCH model. For the purpose of the study, various statically techniques have been used such as graphical analysis, summary statistics, augmented dickey fuller test and GARCH model for the help of secondary data. The study fund negative impact of demonetization on stock market returns. The results of the study will help the governing bodies to examine the impact of demonetization and fame necessary policies. **Dr. S. Padmavathy, Dr. M. Umashankar and v. Induhll (June 2017)** examines the impact of demonetization on share price of companies listed in national stock exchange by employing study methodology. The population of this study includes all the listed index companies of banking and automobile sector were selected. For this they use secondary data. Abnormal returns for the period of event window were determined using market model from the collected data and T-test is conducted to study its significance. This analysis indicates that demonetization announcement does not have any significant impact on Indian stock market. **Swetha Ragi and Mrs. K. Neeraja (March 2018)** a research to analysis the impacts of demonetization on stock market. They analyses the impact of demonetization in this study four company stocks are considered and compared with the market index. Research methodology contains secondary data with the help of statistical tools return, risk and beta. The data the same was compared for the two periods. The study revealed that there

3. Research Problem

The announcement of demonization of Rs. 500 & 1000 notes by the prime minister of India has lead to a short-term pain. This is evidenced by long queues in front of banks, cashless ATMs and reduced small trade market activities bear testimony to it. A reliable criterion to gauge the immediate impact of a sudden policy shock market trends.

3.1 Primary Objectives

- To study the impact of demonetization on Indian stock market.

3.2 Secondary Objectives

- To study the impact of demonetization on share price return of selected companies.
- To find out to standard deviation, correlation, Trend analysis, paired t-test, Variance of the selected stock pre and post demonetization.

3.3 Scope Of the Study:

The study can be extended to all sectors and up to period of one year post demonetization. Also macro-economic factors during the period, which could have an impact on the stock prices, could be considered.

3.4 Time Period Of Study

The period selected for the present study range was 25 days pre and 25 days post (2 October to 14 December) demonetization.

3.5 Tools Used for Study

Average, correlation, covariance, hypothesis, paired t-test, standard deviation, variation

3.6 Data Collection

This study has been based on secondary data. All the data have collect on the NSE websites. Share price of the company have been collected pre and post time period of the demonetization.

3.7 Sampling Design

Five sectors and each sectors three companies have been selected as sample size. Five Sectors are Automobile, Banking, Consumer durables (FMCG), It, Real-estate. In banking Industry there are two type public bank and privet bank. All companies are selected on the basis of market capitalization.

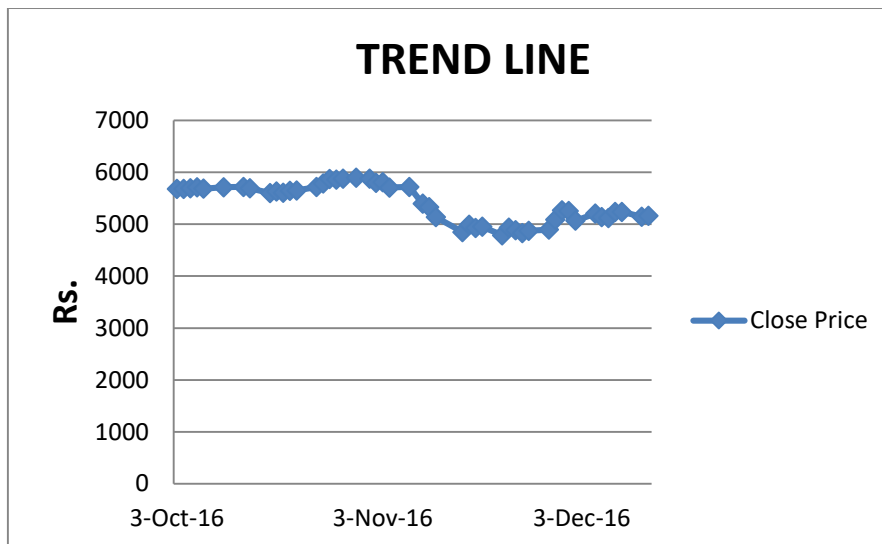
3.8 Limitation Of the Study

1. The study analysis the impact of result on share price only not on the number of share traded, turn over, number of trades, etc.
2. As, the study is conducted on with the samples of the samples of companies, the generalization of results cannot not be made to whole Indian corporate world.

4. Data Analysis and Interpretation

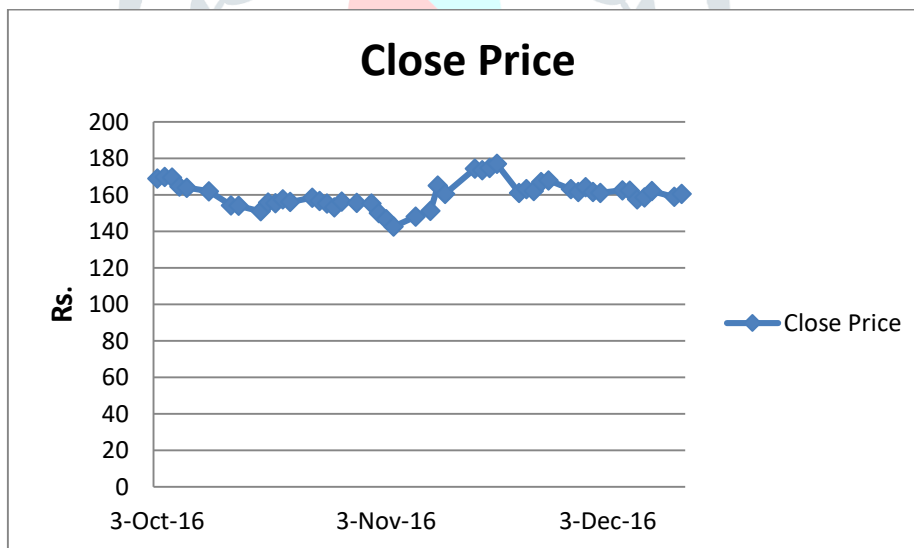
❖ Auto Mobile Industry

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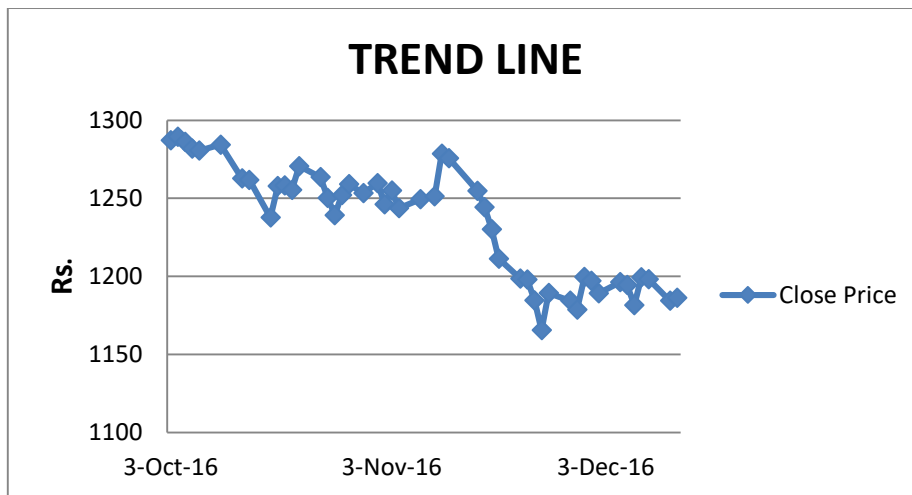
After the announcement of demonetization it has been observed that share price was decreased. Average share price for 25 days before announcement of demonetization were RS. 1351.04 And S.D. was 37.44 but after announcement share price has been decreased and average share price were RS. 1212.60 And S.D. was 59.26. It means fluctuation were high after the announcement as compare to the pre-announcement. Share price has been decrease by 0.823 after the announcement. Variance was 8213.754 before announcement and after announcement it was 30093.219 which were depicts the ratio of the standard deviation to the average.

- ❖ **Banking Industry**
 - **Public Bank**
 1. **Bank Of Baroda**



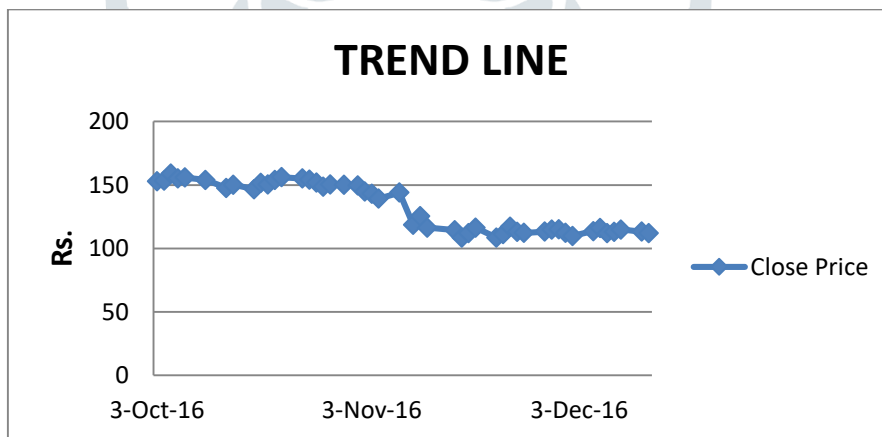
After the announcement of demonetization it has been observed that share price was decreased. Average share price for 25 days before announcement of demonetization were RS. 156.65 And S.D. was 6.97 but after announcement share price has been decreased and average share price was RS.163.79 And S.D. were 6.02. It means fluctuation were high after the announcement as compare to the pre-announcement. Share price has been decrease by 0.186 after the announcement. Variance was 48.648 before announcement and after announcement it was 48.648 which were depicts the ratio of the standard deviation to the average.

- **Private Bank**
 1. **HDFC Bank**



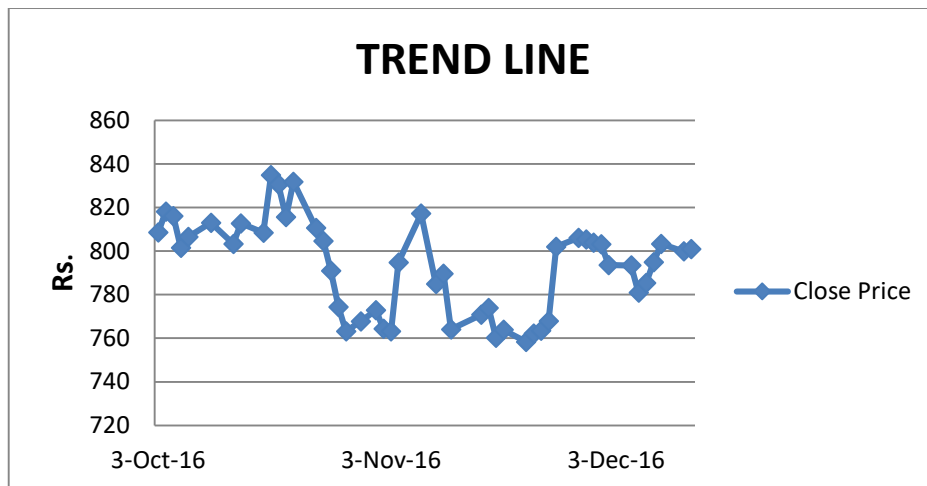
After the announcement of demonetization it has been observed that share price was decreased. Average share price for 25 days before announcement of demonetization were RS.1261.91 And S.D. was 15.59 but after announcement share price has been decreased and average share price were RS. 1207.19 And S.D. was 31.27. It means fluctuation were high after the announcement as compare to the pre-announcement. Share price has been decrease by 0.783 after the announcement. Variance was 243.170 before announcement and after announcement it was 243.170 which were depicts the ratio of the standard deviation to the average.

❖ **Realistic Industry**
 1. **DLF**



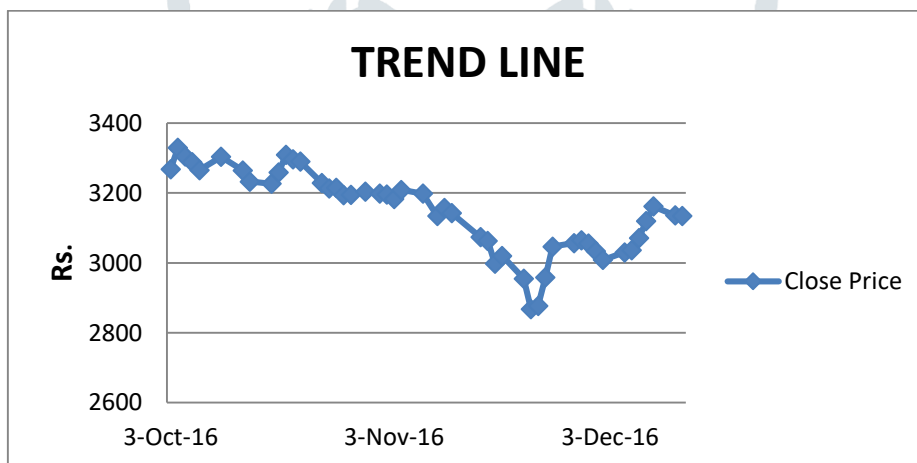
After the announcement of demonetization it has been observed that share price was decreased. Average share price for 25 days before announcement of demonetization were RS.150.77 And S.D. was 4.69 but after announcement share price has been decreased and average share price were RS. 113.94 And S.D. was 3.52. It means fluctuation were high after the announcement as compare to the pre-announcement. Share price has been decrease by 0.162 after the announcement. Variance was 22.031 before announcement and after announcement it was 12.378 which were depicts the ratio of the standard deviation to the average.

❖ **IT INDUSTRY**
 1. **HCL TECHNOLOGIES LTD.**



After the announcement of demonetization it has been observed that share price was decreased. Average share price for 25 days before announcement of demonetization were RS.801.01 And S.D. was 22.31 but after announcement share price has been decreased and average share price were RS. 784.63 And S.D. was 17.11. It means fluctuation were high after the announcement as compare to the pre-announcement. Share price has been decrease by -0.308 after the announcement. Variance was 498.087 before announcement and after announcement it was 292.727 which were depicts the ratio of the standard deviation to the average

❖ **Pharmaceutical Industry**
1. SUN Pharmaceutical



After the announcement of demonetization it has been observed that share price was decreased. Average share price for 25 days before announcement of demonetization were RS.3244.55 And S.D. was 45.51 but after announcement share price has been decreased and average share price were RS. 3050.06 And S.D. was 79.96. It means fluctuation were high after the announcement as compare to the pre-announcement. Share price has been decrease by -0.049 after the announcement. Variance was 2071.876 before announcement and after announcement it was 6393.762 which were depicts the ratio of the standard deviation to the average.

5. Finding

Hypothesis

Null Hypothesis:

H0: – there is no significant difference in stock price after announcement demonetization.

H1: there is significant difference in stock price after announcement demonetization.

Industry Name	Company Name	Paired T-test	Hypothesis
Auto mobile	M&M	1.29743E-15	H0 : accepted
	TATA	1.94454E-12	H0 : accepted
	MARUTI	8.46477E-17	H0 : accepted
	BAJAJ	3.08656E-13	H0 : accepted
Banking	BOB	0.000341334	H0 : rejected
	SBI	0.001828557	H0 : rejected
	HDFC	9.07204E-12	H0 : accepted
	KOTAK	0.0006264	H0 : rejected
Realistic	DLC	5.0897E-21	H0 : accepted
	OBEROIRL	4.22852E-11	H0 : accepted
	GODREJ	3.11349E-10	H0 : accepted
	PRESTIGE	6.81748E-17	H0 : accepted
IT	HCLTECH	0.019766236	H0 : rejected
	TCS	8.46647E-14	H0 : accepted
	INFTY	1.07997E-06	H0 : accepted
	OFSS	5.84029E-10	H0 : accepted
Pharmaceutical	SUNPH	3.45207E-07	H0 : accepted
	LUPIN	0.237736253	H0 : accepted
	DRREDDY	0.075042733	H0 : accepted
	CIPLA	0.002049236	H0 : rejected

(Table - 5.1)

- As per above table, it is found that majority of the selected companies has a no relation between the demonetization and share priced because in the above table 15 companies have higher value as compare to their significance level (0.05) and which is depicts that null hypothesis is accepted.
- It has been also proven with the help of the above table that only 5 companies has a effect of demonetization because in BOB, SBI, KOTAK, HCLTECE and CIPLA p-value is less than their significance level (0.05) which shows null hypothesis is rejected it means those companies are affected by demonetization.
- It can also say that private bank HDFC stock faced the higher effect of demonetization during the period as compare to other bank.

- All companies standard deviation are also increased after demonetization. When it comes to pharmaceuticals companies their share prices are increase.
- From this analysis it can observed that after demonetization stocks of automobile, banking, IT and real estate have no change.

6. Conclusion

Demonetization implies removing the flow of a specific currency from the economy and replacing it with the new currency. It is a process by which a series of currency will not remain a legal tender. The return of some stock is decreased. When it comes to the standard deviation all the stock faced higher risk. It can conclude that there is no impact of demonetization on the stock market of selected companies.

Besides demonetization other factors also affected the NSE like Donald Trump's election as president of the US and the subsequent rise in US bond yields and the strengthening of the dollar. That has led to found flowing out from emerging market and India too has been affected. However, it seems that once the short term impact of demonetization is over, Indian equities will likely bounce back sharply. The wide spread negative returns across sectors after demonetization is reflect the immediate negative sentiment attached with the overall economic activity.

However, with jean Druze calling demonetization a big gamble for India, the possibility of a favorable outcome cannot be ruled out. The possibility of these effects being temporary may seem to be a ray of hope. The stock market in India has fallen a bit more in comparison with emerging Asian markets. The significant impact of the demonetization will be in the unorganized sector which isn't reflected in the markets.

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