

Research Paper



A STUDY ON EFFECT OF DEMONETISATION ON EQUITY SHARE PRICE OF SELECT REAL ESTATE COMPANIES IN INDIA

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ABSTRACT

Demonetization is a tool of Government to eliminate the false currency. It is used in very adverse situations. The present study highlights the effect of demonetization in the volatility of equity share prices of ten select real estate companies. Volatility Forecasting helps to investors or players in the capital market to find out the buy and sell signals about shares on the basis of quantity of risk thereon. To measure the volatility the equity share prices of ten real estate companies was selected. Analysis was made with the help of statistical tool like, Mean, S.D. and t-statistics. From the study it found that demonetization does not affect real estate companies except HDIL and Anantraj.

KEY WORDS: *Demonetization, Volatility, Equity share prices.*

1. INTRODUCTION

The Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. Cash shortages and payment disruptions caused by the demonetisation have undermined consumption and business activity, posing a new challenge to sustaining the growth momentum.

The real estate sector in India has traditionally involved a significant level of informal funding in the form of cash transactions. As the demonetization measures are expected to result in decreased informal funding sources, the real estate sector is expected to be adversely affected. Cash transactions are most common in secondary sales, and resale transactions are expected to decline. While these measures are expected to in the long term promote transparent pricing in the real estate sector, decreased liquidity resulting from lower informal funding sources is expected to significantly weaken the demand for resale properties.

2. DEMONETIZATION HISTORY AND BACKGROUND IN INDIA

This is not the first time when Indian currency is demonetized in India. The first instance was in 1946 and the second in 1978 when an ordinance was promulgated to phase

out notes with denomination of Rs 1,000, Rs 5,000 and Rs 10,000. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978.

Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation. However, this is the first time that Rs 2,000 currency note is being introduced. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms.

In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi (MG) series banknotes – 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000). The Mahatma Gandhi



Series – 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series. The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.

3. REVIEW OF LITERATURE

Grundt, Bruce D and Youngsoo Kim (2005)¹ in their study on “Stock Market Volatility in a Heterogeneous Information Economy” explain that the informational role of prices contributes positively to their variability. In a noisy rational expectations equilibrium, traders rationally respond to price changes by revising their estimates of other traders private signals and hence their own expectations of future dividends. The resultant shifts in trader’s demands amplify any supply with shock-induced price changes. Hence, these authors developed an infinite horizon noisy rational expectations model and calibrated, simulated, and tested it using US stock market data. The price variability in a heterogeneous information economy was showed to be 20 per cent to 46 per cent higher than in an otherwise equivalent economy in which all signals were publicly announced.

Binder and Merger (2007)² examine the ability of rational economic factors to explain stock market volatility. A simple model of the economy under uncertainty identifies four determinants of stock market volatility uncertainty about the price level, the risk less rate of interest, the risk premium on equity and the ratio of expected profits to expected revenues. In initial tests these variables have significant explanatory power and account for over 50 per cent of the variation in market volatility from 1929 to 1989 when the regression coefficients are allowed to vary over time using cluster regression, the four factors explain over 90 per cent of the variation in market volatility and in forecasting future volatility.

Coondoo and Mukherjee (2007)³ suggest a unique decomposition of the volatility of a variable into three distinct components, viz. the strength, duration and persistence of volatility. They illustrate application of the proposed methodology on a time series data set of daily observations on three variables, viz. Stock return, call money rate and foreign institutional investment pertaining to India.

Geeta Rani (2017)⁴ suggests that initially the demonetization effects on market were painful but this also instigate the shopkeepers and consumers to adopt cashless means such as paytm, debit card use, internet banking to buy goods. By

adopting the cashless means economy will be sound in coming time and Indian Economy will get benefits of early and hassle free transactions. Demonetization effect will be positive in coming time for Indian Economy.

Veera Kumar (2017)⁵ in his study on people impact on demonetization revealed that The demonetization is taken for several measures such as tax evasion, counterfeit currency and funding of illegal activities. Some people are depositing currency notes in excess of specified limits directly into bank accounts has showed the unaccounted income, subject to higher tax and other penalties. Alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have been increased and this will shift an efficient cashless infrastructure.

4. STATEMENT OF THE PROBLEM

Volatility of equity share price is created by national as well as international factors due to all the negative impacts of volatility on investors and corporate which will hamp the growth. Nifty and Sensex represents the Indian capital market and are considered as barometer of economy. Volatility is a matter of concern to every investor in the capital market. The study has been undertaken to measure the volatility of equity share price of select real estate companies in India. The objective is achieved in this study by measuring the volatility of BSE SENSEX, which represents the Indian capital market of the pre and the post demonetization.

5. OBJECTIVES OF THE STUDY

The objectives of the study are

- To analyze the volatility of equity share price of select real estate companies in India.
- To examine the effect of demonetisation on equity share price of select real estate companies in the pre and the post demonetisation period.

6. HYPOTHESIS

H_0 : There is no significant difference in equity share price of real estate companies in the pre and post demonetisation period.

7. SOURCE OF DATA

The data collected for the study is secondary one. The required data for the study were collected from Bombay stock exchange of India. The period of study for ten months from June 2016 to March 2017.

The collected data have been used for analysis with the help of statistical tools. The statistical tools namely, Mean, Standard deviation and Paired t-test.

8. ANALYSIS AND INTERPRETATION

Table-1 Statistics (Mean & Std.) of Month to Month Closing Share Prices of Real Estate Companies in Pre-Demonetization Period

Period	Month	DLF	INRL	SOBH	OMAX	HDIL	ANRA	PURA	UNTE	MANE	ARFL
Pre Demonetization	June	2.18	1.97	2.51	2.20	2.01	1.69	1.70	0.81	2.34	1.61
	July	2.21	1.96	2.52	2.21	2.01	1.76	1.69	0.86	2.33	1.60
	Aug	2.19	1.91	2.46	2.21	1.97	1.76	1.70	0.73	2.44	1.64
	Sep	2.16	1.96	2.47	2.23	1.90	1.74	1.65	0.77	2.38	1.62
	Oct	2.18	1.94	2.45	2.23	1.92	1.74	1.69	0.78	2.42	1.86
	MEAN	2.184	1.948	2.482	2.216	1.962	1.738	1.686	0.79	2.382	1.666
	S.D	0.01817	0.02387	0.03114	0.01342	0.0507	0.02864	0.02074	0.04848	0.04817	0.10945

Source: Computed and compiled from secondary data

Table 1 indicates the volatility of equity share price of ten real estate companies during the pre-demonetization period. The pre demonetization period consists of 1st June 2016 - 8th November 2016. In this period the company Sobha has the highest mean value of 2.482 and the lowest mean

value of 0.79 in Unitech. The highest standard deviation 0.10945 is found in the Arihant. It indicates the high volatility of the study period and lowest standard deviation 0.0507 is found in HDIL. It indicates the lowest volatility of share prices.

Table-II Statistics (Mean & Std.) of Month to Month Closing Share Prices of Real Estate Companies in Post-Demonetization Period

Period	Month	DLF	INRL	SOBH	OMAX	HDIL	ANRA	PURA	UNTE	MANE	ARFL
Post Demonetization	Nov	2.06	1.85	2.41	2.20	1.79	1.61	1.61	0.70	2.35	1.72
	Dec	2.05	1.85	2.39	2.20	1.78	1.59	1.64	0.61	2.30	1.78
	Jan	2.13	1.88	2.41	2.22	1.80	1.63	1.66	0.68	2.30	1.75
	Feb	2.18	1.91	2.46	2.22	1.84	1.66	1.72	0.78	2.34	1.72
	Mar	2.17	1.94	2.53	2.23	1.91	1.68	1.83	0.75	2.42	1.69
	MEAN	2.118	1.886	2.44	2.214	1.824	1.634	1.692	0.704	2.342	1.732
	S.D	0.06058	0.03912	0.05657	0.01342	0.0532	0.03647	0.08701	0.0658	0.04919	0.03421

Source: Computed and compiled from secondary data

Table 2 displays the volatility of equity share price of ten real estate companies during the post demonetisation period. The post demonetization period consists of 9th November 2016 - 31st march 2017. In this period the company Marathon has the highest mean value of 2.342 and the lowest

mean value of 0.704 in Unitech. The highest standard deviation 0.06058 is found in the Dlf. It indicates the high volatility of the study period. and lowest standard deviation 0.0532 is found in HDIL. It indicates the lowest volatility of share prices.

Table-III Results of T-Statistics of Share Prices of Real Estate Companies for the Period (June 2016 –March 2017)

Company Name	t - value	D.F.	Significant value
DLF	1.976	4	0.119
INRL	2.683	4	0.055
SOBH	1.141	4	0.317
OMAX	0.535	4	0.621
HDIL	3.138	4	0.035
ANRA	5.161	4	0.007
PURA	0.14	4	0.895
UNTE	1.897	4	0.131
MANE	1.501	4	0.208
ARFL	1.087	4	0.338

Source: Computed and compiled from secondary data

Table 3 shows the ‘t’ test result of test statistics of HDIL is 3.138 and the p value is 0.035 and Anantraj is 5.161 and the p value is 0.007 (P < 0.05) is not significant at 5 per cent level. Hence the null hypothesis is rejected for this company alone. Since the other companies’ values are significant at 5 per cent level, it is inferred that there is a significant difference in equity share price of companies during the pre and the post demonetization periods

9. FINDINGS

- The overall mean value for the pre and the post demonetization period indicates that the post financial crisis period has the highest mean value of 2.482 and 2.342.
- The highest standard deviation 0.10945 is found in the pre demonetization period, it indicates the high volatility of the study period. The lowest standard deviation of 0.0532 is found in the post demonetization period. It indicates the lowest volatility during the study period.
- The ‘t’ test result shows that the test statistics is significant at 5 per cent level for all the companies except HDIL and Anantraj. Since the other companies’ values are significant difference in equity share price of companies during the pre and the post demonetization periods

10. CONCLUSION

The study is an attempt to examine the volatility of Select real estate companies in pre and post demonetisation period. The study found that there is significant effect in equity share prices of all the companies except HDIL and Anantraj. Since, the demonetisation effect will not last for longer period in the real estate sector so, they may have sustainable performance with the growth in the Indian economy.

11. REFERENCE

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