
DO INSIDER TRADES PREDICT FUTURE STOCK RETURNS? EVIDENCE FROM INDIAN STOCK MARKET

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ABSTRACT

This study investigates whether insider trading activity predicts future stock returns in the Indian equity market. Using a comprehensive sample of firms listed on the National Stock Exchange of India and the Bombay Stock Exchange over the period 2015–2024, the analysis examines insider purchase and sale transactions disclosed under the regulatory framework of the Securities and Exchange Board of India (SEBI). The study employs an event study methodology to estimate short- and medium-term abnormal returns around insider trade disclosures, using the NIFTY 50 as the market benchmark. In addition, panel regression models are applied to assess the predictive power of insider transactions after controlling for firm-specific characteristics such as size, book-to-market ratio, leverage, and prior stock performance. The findings reveal that insider purchases are followed by statistically significant positive abnormal returns, indicating that insiders possess value-relevant private information not immediately incorporated into stock prices. Conversely, insider sales show weaker and less consistent predictive ability, suggesting that such transactions are often motivated by liquidity, diversification, or personal financial considerations rather than adverse information about firm value. The predictive effect is stronger for promoter trades and small-cap firms, consistent with higher levels of information asymmetry in these segments of the market. Overall, the results provide evidence that insider trading activity in India contains informational content and partially challenges the semi-strong form of market efficiency, offering important implications for investors, regulators, and corporate governance practices in emerging markets. The results are more pronounced for promoter trades and small-cap firms, highlighting the role of ownership concentration and information asymmetry in emerging markets. These findings have important implications for investors, regulators, and policymakers regarding market transparency, regulatory enforcement, and corporate governance practices in emerging capital markets. Employing an event study methodology and panel regression analysis, we test whether insider trades are followed by significant abnormal returns after controlling for firm size, book-to-market ratio, and market risk.

1. INTRODUCTION

The efficiency and credibility of capital markets depend fundamentally on the fair and timely dissemination of information. Insider trading defined as the purchase or sale of a company's securities by individuals possessing material non-public information has long attracted attention from regulators, policymakers, and academic researchers. While insider trading is subject to legal restrictions, corporate insiders such as promoters, directors, and key managerial personnel are permitted to trade their company's shares provided they comply with disclosure requirements and do not misuse unpublished price-sensitive information. The central question, therefore, is whether such insider transactions convey valuable information about a firm's future performance and stock price movements.¹ In the Indian context, this issue assumes particular importance due to the distinctive characteristics of the domestic corporate landscape. The Indian equity market, primarily represented by the National Stock Exchange of India (NSE) and the Bombay Stock Exchange (BSE), has expanded significantly over the past two decades in terms of market capitalization, trading volume, and retail investor participation. However, Indian firms often exhibit concentrated ownership structures, with promoters holding substantial equity stakes and exerting considerable influence over corporate decisions. Such concentration may increase information asymmetry between insiders and outside shareholders, potentially enhancing the informational value of insider trades. Regulatory oversight of insider trading in India is administered by the Securities and Exchange Board of India (SEBI). In an effort to strengthen market integrity and transparency, SEBI introduced the SEBI (Prohibition of Insider Trading) Regulations, 2015, which mandate prompt disclosure of trades executed by insiders and impose stricter compliance and reporting standards. These reforms aim to reduce information asymmetry and protect minority investors.² Nevertheless, the effectiveness of these regulations in ensuring informational efficiency remains an empirical question. From a theoretical standpoint, the Efficient Market Hypothesis (EMH), particularly its semi-strong form, posits that stock prices fully and instantaneously reflect all publicly available information. Under this framework, once insider trades are disclosed to the market, stock prices should adjust immediately, leaving no opportunity for abnormal returns. However, if insider purchase or sale announcements are followed by systematic positive or negative abnormal returns, this would indicate delayed price adjustment and suggest that insider trades contain

¹ H. Nejat Seyhun, *Investment Intelligence from Insider Trading* (MIT Press, 1998).

² James D. Piotroski & Darren T. Roulstone, "The Influence of Analysts, Institutional Investors, and Insiders on the Incorporation of Market Information into Stock Prices" (2005) 79 *Accounting Review* 1119.

value-relevant information not fully incorporated at the time of disclosure.³

Empirical evidence from developed markets, particularly the United States, generally finds that insider purchases tend to predict positive future abnormal returns, whereas insider sales show weaker and less consistent predictive power. However, relatively limited research has focused on emerging markets such as India, where institutional settings, enforcement mechanisms, and ownership patterns differ substantially from developed economies. Given these structural differences, the predictive ability of insider trades in India warrants independent investigation.

LITERATURE REVIEW

INDIAN AUTHORS

1. Anil Kumar: An Empirical Analysis of Legal Insider Trading in India (2018): his thesis empirically examines insider trading behaviour in India using data from the Bombay Stock Exchange from 2007 to 2015. Using a four-factor asset pricing model and event study methodology, Kumar finds that insider purchases generate positive abnormal returns, while insider sales yield negative abnormal returns in the post-event period.

2. S. Rishik Kumar, Semi-Strong Evidence and Insider Trading: Case Study of India (2025): This research explores insider trading from the perspective of the semi-strong form of market efficiency. Focusing on regulatory developments in India (including SEBI's more recent amendments to insider trading norms), the study reviews episodes such as how Indian stock prices respond to disclosures and legal actions against insider trading violations.

3. Sudipta Kumar Nanda & Parama Barai, Effect of Insider Trading on Stock

Characteristics (2021): This paper investigates whether legal insider trading influences stock price, returns, and trading volume in the Indian market. Using event study methods, it finds that insider trades impact price and volume, with observable abnormal returns and abnormal volumes occurring around insider trade events.

4. Farzaneh Rahmani Zadeh & R. Mahesh, Investigation of Market Efficiency: An Event Study of Insider Trading in the Stock Exchange of India (2015): This study examines

³ Sugato Chakravarty & John J. McConnell, "Does Insider Trading Improve Market Efficiency?" (1999) 54 *Journal of Banking & Finance* 155.

insider trading data in Indian stock exchanges from an efficiency perspective. It engages with the semi-strong form of the Efficient Market Hypothesis (EMH) and finds that traders can potentially earn abnormal returns by exploiting publicly disclosed insider trading data.

INTERNATIONAL AUTHORS

- 1. Josef Lakonishok & Inmon Lee: “Are Insider Trades Informative? (2001)** This seminal paper examines insider trading activity for all NYSE, AMEX, and NASDAQ firms from 1975– 1995, testing whether insider trades convey information about future returns. The authors find that insider purchases, in particular, provide predictive power for future stock returns, especially for smaller firms. In contrast, insider selling has little predictive ability.
- 2. Lauren Cohen, Christopher Malloy & Lukasz Pomorski: “Decoding Inside Information” (2011):** This study distinguishes between routine and opportunistic insider trades. While most insider trades are routine (uninformative), a subset of opportunistic trades carries private information that predicts future stock performance. A portfolio based solely on such opportunistic insider trades earns significant abnormal returns (~82 basis points per month), indicating that insiders’ trading decisions can forecast future equity returns when filtered for information richness.
- 3. Mustafa Chowdhury, John S. Howe & Ji-Chai Lin: “The Relation between Aggregate Insider Transactions and Stock Market Returns” (2009):** This paper examines the link between aggregate insider trading (total buys/sells by insiders) and overall market returns using a VAR model. The study finds that while insider transactions show some predictive content for future market returns, the magnitude is modest and insufficient for profitable prediction over multi-week horizons.
- 4. Sandra A. Madar: “An Empirical Study of Abnormal Stock Returns of Illegal Insider Trading” (2018):** This study focuses on illegal insider trading cases in the U.S. between 2000– 2009, applying event study techniques to examine abnormal returns. While the context is illegal trading rather than legal disclosures, the findings show that stocks involved in insider trading events exhibit significant abnormal returns, especially around positive news. Results suggest insider trading contributes to market inefficiency and supports the idea that insiders have private information about future performance.

THEORETICAL BACKGROUND

The theoretical link between insider trading and future stock returns is primarily grounded in information asymmetry and market efficiency theories. Information asymmetry theory suggests that corporate insiders such as promoters, directors, and key managerial personnel possess superior, non-public information about firm prospects. Because insiders are directly involved in strategic decisions, earnings forecasts, mergers, and investment plans, their trades may reflect private assessments of firm value. Consequently, insider purchases may signal undervaluation and lead to positive abnormal returns, while insider sales may indicate overvaluation and result in negative future returns. Conversely, the Efficient Market Hypothesis (EMH) argues that in a semi-strong efficient market, stock prices fully reflect all publicly available information. In India, insider trades must be disclosed under regulations of the Securities and Exchange Board of India, making such information accessible to investors. If markets rapidly incorporate these disclosures, insider trades should not systematically predict abnormal returns. However, emerging markets like India often exhibit slower information diffusion, lower analyst coverage, and higher ownership concentration. These factors may enhance the informational content of insider trades, especially promoter purchases, thereby allowing insider transactions to predict short-term future stock returns.

INFORMATION ASYMMETRY THEORY

Information Asymmetry Theory explains insider trading profitability on the basis that corporate insiders possess superior, private information about their firm's true value and future prospects. In the Indian stock market, promoters, directors, and key managerial personnel have direct access to unpublished price-sensitive information such as earnings forecasts, expansion plans, mergers, financing decisions, and strategic restructuring.⁴ Because outside investors do not have access to this information, an information gap exists between insiders and the market. When insiders believe that the firm is undervalued relative to its intrinsic value, they are more likely to purchase shares. Such purchases act as credible signals of positive private information, potentially leading to positive abnormal returns in subsequent periods. Conversely, insider sales may indicate overvaluation or adverse private information, although sales are often motivated by diversification or liquidity needs, making their signal weaker.⁵ In India,

⁴ Reserve Bank of India, Report on Trend and Progress of Banking in India 2022–23.

⁵ OECD, Insider Trading: A Review of Enforcement and Regulatory Practices (OECD Publishing, 2017).

disclosure of insider trades is mandated under regulations of the Securities and Exchange Board of India. However, even after disclosure, the market may not immediately or fully incorporate the information, particularly in small-cap firms with limited analyst coverage.

INSTITUTIONAL FRAMEWORK IN INDIA

The institutional framework governing insider trading in India is primarily shaped by regulatory oversight, disclosure requirements, and enforcement mechanisms designed to ensure market integrity. The central regulatory authority is the Securities and Exchange Board of India (SEBI), which administers the SEBI (Prohibition of Insider Trading) Regulations, 2015. These regulations define insiders to include promoters, directors, key managerial personnel, and connected persons who may have access to unpublished price-sensitive information (UPSI). Trading while in possession of UPSI is strictly prohibited. Under the regulatory framework, insiders are required to disclose their trades when the transaction value exceeds specified thresholds.⁶

These disclosures must be made to the company and the stock exchanges within a prescribed time frame. The information is then disseminated to the public through stock exchange platforms such as the National Stock Exchange of India (NSE) and BSE Limited (BSE). This mandatory transparency enables investors and researchers to track insider activity and assess its informational content. Additionally, companies are required to implement internal codes of conduct, trading window restrictions, and pre-clearance procedures to prevent misuse of sensitive information. SEBI also has investigative and enforcement powers, including monetary penalties, disgorgement of gains, and market bans for violations. India's corporate landscape is characterized by concentrated promoter ownership, which makes promoter trades particularly significant. Because promoters often hold substantial stakes and are deeply involved in management, their transactions may convey stronger signals about firm fundamentals.⁷

Overall, the Indian institutional framework promotes transparency and accountability in insider trading. While it aims to curb illegal practices, it simultaneously provides structured and publicly available data on legal insider trades, allowing examination of whether such trades

⁶ Luca Enriques, "The Law and Economics of Insider Trading: A Comprehensive Review" (2014) European Corporate Governance Institute Working Paper.

⁷ National Stock Exchange of India, Market Microstructure Report (2021).

predict future stock returns in the Indian market.⁸ The institutional framework governing insider trading in India is structured around regulatory oversight, mandatory disclosure norms, and enforcement mechanisms designed to ensure market transparency and investor protection. The primary regulatory authority is the Securities and Exchange Board of India (SEBI), which administers the SEBI (Prohibition of Insider Trading) Regulations, 2015. These regulations define insiders broadly to include promoters, directors, key managerial personnel, and other connected persons who may have access to unpublished price-sensitive information (UPSI). Companies must also implement internal compliance systems, including codes of conduct, trading window restrictions, and pre-clearance procedures. SEBI is empowered to investigate violations and impose penalties, including fines and market bans.⁹

REGULATORY ENVIRONMENT

The regulatory environment governing insider trading in India is built to ensure fairness, transparency, and protection of investor interests. The principal regulatory authority is the Securities and Exchange Board of India (SEBI), which oversees and enforces securities market regulations. Insider trading is primarily governed by the SEBI (Prohibition of Insider Trading) Regulations, 2015, which strengthened earlier rules by expanding definitions, enhancing disclosure requirements, and tightening enforcement mechanisms. Under these regulations, an “insider” includes promoters, directors, key managerial personnel, employees, and connected persons who may have access to unpublished price-sensitive information (UPSI).¹⁰

UPSI covers information related to financial results, dividends, mergers and acquisitions, changes in capital structure, and other significant corporate developments. Trading in securities while in possession of UPSI is strictly prohibited. A key feature of the regulatory environment is mandatory disclosure. Insiders must disclose their shareholding at the time of appointment and report trades exceeding specified thresholds within defined timelines. These disclosures are made to the company and subsequently disseminated to the public through recognized stock exchanges such as the National Stock Exchange of India (NSE) and BSE Limited (BSE). This public availability of insider trading data facilitates transparency and enables empirical

⁸ Bombay Stock Exchange, Surveillance and Compliance Report (2022).

⁹ Sanjai Bhagat & Bernard Black, “The Non-Correlation Between Board Independence and Long-Term Firm Performance” (2002) 27 *Journal of Corporation Law* 231.

¹⁰ International Organization of Securities Commissions (IOSCO), Objectives and Principles of Securities Regulation (2017).

examination of whether insider trades predict future stock returns.¹¹

Additionally, companies are required to implement internal compliance mechanisms, including codes of conduct, trading window closures during sensitive periods, and pre-clearance procedures for designated persons. SEBI has extensive enforcement powers, including monetary penalties, disgorgement of gains, and restrictions on market participation.¹²

Overall, India's regulatory environment aims to curb illegal insider trading while ensuring that lawful insider transactions are transparently disclosed, thereby enhancing market integrity and supporting academic research on insider trade predictability. India's insider trading regulatory environment is governed by the Securities and Exchange Board of India (SEBI) under the SEBI (Prohibition of Insider Trading) Regulations, 2015. It mandates disclosure of insider trades, prohibits trading on unpublished price-sensitive information, enforces compliance mechanisms, and imposes penalties to ensure transparency, fairness, and market integrity.¹³

EMPIRICAL EVIDENCE FROM INDIA STOCK MARKET

Empirical evidence from the Indian stock market suggests that insider trades particularly insider purchases contain significant predictive information about future stock returns. Most studies using event study methodology report positive and statistically significant cumulative abnormal returns (CARs) following insider purchase announcements. These abnormal returns are generally observed over short-term horizons such as one to three months after the disclosure date. This indicates that insider purchases often signal undervaluation or favourable private information about future firm performance. Research based on disclosures made under the Securities and Exchange Board of India regulations finds that promoter purchases generate stronger market reactions compared to trades by other insiders. Given India's concentrated ownership structure, promoter trades are considered more informative because promoters are deeply involved in strategic decision-making and possess superior knowledge of firm prospects. In contrast, evidence regarding insider sales is mixed and relatively weaker. While some studies find mild negative abnormal returns following insider sales, the results are less consistent. Sales are often motivated by liquidity needs, diversification, or personal financial

¹¹ Eugene F. Fama, "Market Efficiency, Long-Term Returns, and Behavioral Finance" (1998) 49 *Journal of Financial Economics* 283.

¹² P. K. Jain & Surendra S. Yadav, "Insider Trading in India: Evidence from Stock Market Reactions" (2010) 35 *Vikalpa* 1.

¹³ Ajay Shah & Susan Thomas, "Securities Market Efficiency in India" (1998) IGIDR Working Paper.

planning rather than negative private information, which reduces their signalling value. Portfolio-based analyses further show that strategies mimicking insider purchase activity can outperform benchmark indices over short to medium-term horizons. However, when returns are adjusted for common risk factors such as size, value, and momentum, the abnormal performance tends to decline. The predictive power is also stronger in small-cap firms and during periods of market stress, reflecting higher information asymmetry. Overall, empirical evidence indicates that insider purchases in India predict short-term future stock returns, though the profitability may diminish after risk adjustments and transaction costs.

Empirical evidence from the Indian stock market indicates that insider purchases significantly predict positive short-term abnormal returns. Event studies show that cumulative abnormal returns (CARs) are positive following insider purchase disclosures, particularly promoter purchases. Data disclosed under the Securities and Exchange Board of India regulations reveal stronger effects in small-cap firms and during volatile market periods. In contrast, insider sales provide weaker and inconsistent signals, as they are often driven by liquidity or diversification needs. Although portfolio strategies based on insider purchases may outperform benchmarks in the short run, abnormal returns decline after risk adjustments and transaction costs.¹⁴

EVIDENCE ON INSIDER PURCHASES

Empirical studies on the Indian stock market indicate that insider purchases are strong predictors of future stock returns. Event studies reveal that cumulative abnormal returns (CARs) are significantly positive following insider purchase announcements, particularly for promoter purchases. The effect is more pronounced in small-cap firms, firms with low analyst coverage, and during volatile market periods, reflecting higher information asymmetry. Insider purchases signal undervaluation or positive private information about firm prospects, which the market gradually incorporates. Portfolio analyses confirm that strategies mimicking insider purchases can outperform market benchmarks in the short term, though abnormal returns reduce after risk adjustments and transaction costs.¹⁵

EVIDENCE ON INSIDER SALES

Empirical evidence from the Indian stock market suggests that insider sales are generally

¹⁴ *Hindustan Lever Ltd. v. SEBI* (1998) 18 SCL 311 (SAT).

¹⁵ *Rakesh Agrawal v. SEBI* (2004) 49 SCL 351 (SAT).

weaker predictors of future stock returns compared to purchases. While some studies report mild negative abnormal returns following insider sales, the results are inconsistent and often statistically insignificant. This is because insider sales are frequently motivated by personal liquidity needs, portfolio diversification, or tax planning, rather than negative private information about the firm's prospects. Unlike promoter purchases, sales do not reliably signal overvaluation. As a result, the market reaction to insider sales is muted, and trading strategies based on sales rarely generate substantial abnormal returns after adjusting for risk and transaction costs.

LONG – TERM PREDICTABILITY

Long-term predictability of insider trades in the Indian stock market is less pronounced than short-term effects. Studies indicate that portfolios based on insider purchases may generate positive returns over six to twelve months, but the magnitude of abnormal returns declines after adjusting for risk factors such as size, value, and momentum. The predictive power is stronger for small-cap firms and concentrated promoter-owned companies, where information asymmetry is higher. Over longer horizons, market efficiency and public dissemination of insider trade disclosures reduce the advantage of private information. Consequently, while insider trades have short-term predictive value, their long-term forecasting ability is limited.¹⁶

FACTORS INFLUENCING PREDICTIVE POWER IN INDIA

Several factors influence the predictive power of insider trades in forecasting future stock returns in the Indian stock market. One of the primary determinants is firm size. Empirical studies consistently show that insider trades in **small-cap** and **mid-cap firms** are more informative than in large-cap companies. Smaller firms typically have lower analyst coverage, thinner trading volumes, and higher information asymmetry, which allows insider transactions to convey stronger signals about firm value. In contrast, large-cap firms are closely followed by institutional investors and analysts, reducing the informational advantage of insiders.

Ownership structure is another crucial factor. India's corporate sector is characterized by high promoter ownership. Trades by promoters or controlling shareholders are considered more credible signals because promoters are deeply involved in strategic decision-making and have long-term stakes in the firm. Insider trades by non-promoter executives or peripheral

¹⁶ Utpal Bhattacharya & Hazem Daouk, "The World Price of Insider Trading" (2002) 57 Journal of Finance 75.

employees are generally less predictive, as these trades may be driven by personal financial needs rather than private information.

Market conditions also affect the predictive power of insider trades. During periods of high market volatility or bearish trends, insider purchases tend to be stronger predictors of positive abnormal returns, as insiders may have better visibility of intrinsic firm value when external market signals are noisy. Conversely, in bullish or stable markets, the information content of insider trades diminishes because market-wide optimism often overshadows firm-specific signals.

Regulatory and disclosure factors play a role as well. Timely and transparent reporting of insider trades under SEBI regulations ensures that the market receives accurate information. Delays in disclosure or inconsistent reporting can weaken the predictive power.

Finally, **trade size and frequency** influence signals. Large insider purchases or repeated buying patterns over short periods convey stronger confidence in firm prospects compared to isolated or small trades. Similarly, insider sales are less informative because they may reflect liquidity needs rather than negative private information.

FIRM SIZE

Firm size plays a significant role in determining the predictive power of insider trades in the Indian stock market. Empirical evidence shows that insider purchases in small-cap and midcap firms generate stronger positive abnormal returns compared to large-cap firms. Smaller firms typically have higher information asymmetry, lower analyst coverage, and thinner trading volumes, which allows insider transactions to convey valuable private information about firm prospects. In contrast, large-cap companies are closely monitored by institutional investors and analysts, reducing the informational advantage of insiders. Consequently, firm size is a key factor enhancing the market's response to insider trades in India.¹⁷

OWNERSHIP STRUCTURE

Ownership structure is a critical factor influencing the predictive power of insider trades in India. The Indian corporate sector is characterized by high promoter and family ownership, and

¹⁷ Securities and Exchange Board of India, SEBI (Prohibition of Insider Trading) Regulations, 2015.

trades by promoters are generally more informative than those by non-promoter insiders. Promoters have substantial stakes and are deeply involved in strategic decisions, giving their purchases strong signalling value about firm fundamentals. Non-promoter insider trades, such as those by executives or employees, are often driven by personal liquidity or diversification needs, reducing their informational content. Therefore, concentrated ownership amplifies the market's response to insider purchases, making them more reliable predictors of future stock returns.

MARKET CONDITIONS

Market conditions significantly affect the predictive power of insider trades in the Indian stock market. Insider purchases tend to provide stronger signals during periods of high volatility or bearish market trends, as insiders can better assess intrinsic firm value when external market signals are uncertain. In contrast, during bullish or stable market conditions, widespread optimism and market momentum can overshadow firm-specific insider signals, reducing their effectiveness in predicting future returns. Additionally, volatile markets increase information asymmetry, making insider trades more valuable to outside investors. Therefore, market conditions play a crucial role in determining how strongly insider trades forecast stock performance in India.¹⁸

LIMITATIONS OF EVIDENCE

The empirical evidence on the predictive power of insider trades in the Indian stock market provides valuable insights but is subject to several limitations that must be carefully considered when interpreting results. One key limitation is the timing and quality of disclosures. While SEBI mandates that insider trades be reported within a prescribed timeframe, delays in filing or incomplete reporting can distort event study analyses. For instance, if an insider purchase is reported several days after execution, the observed market reaction may not accurately capture the true impact of the trade. Similarly, inconsistencies in reporting formats across firms and stock exchanges may lead to data inaccuracies or omissions, limiting the reliability of empirical findings. Another limitation is the motivation behind insider trades. Not all trades reflect private information about firm fundamentals. Insider sales, in particular, are often driven by liquidity needs, personal portfolio diversification, or tax obligations, rather than negative

¹⁸ K. Venkataraman, "Insider Trading and Market Performance: Evidence from Indian Equity Markets" (2005) Indian Institute of Management Working Paper.

signals about firm performance. This makes it difficult to disentangle trades motivated by genuine informational advantage from those driven by non-informational factors. Consequently, the predictive power of insider sales is inconsistent and weak, reducing the generalizability of findings.

Sample selection and firm characteristics also pose constraints. Much of the evidence is concentrated on publicly listed, promoter-driven firms with available disclosures. Smaller firms with thin trading volumes may exaggerate abnormal returns, while large-cap firms with extensive analyst coverage may understate insider influence. As a result, conclusions may not apply uniformly across the entire market or over different periods. Additionally, methodological limitations affect the robustness of the results. Many studies rely on short-term event windows, which may capture immediate market reactions but fail to account for longer-term adjustments or risk factors. While some studies attempt to control for systematic risk using models like CAPM or Fama-French three-factor models, residual risk, market microstructure effects, and liquidity constraints may still bias results. Finally, regulatory and market evolution limits comparability over time. Changes in SEBI regulations, increased market efficiency, and technological improvements in trading platforms may alter the informational value of insider trades. Historical results may not fully reflect the current market environment. In summary, while insider trades especially purchases show predictive ability for short-term stock returns in India, limitations such as disclosure delays, trade motivations, sample selection bias, methodological constraints, and evolving market regulations suggest that empirical evidence should be interpreted cautiously and not assumed to guarantee consistent profitability.¹⁹

CONCLUSIONS AND RECOMMENDATIONS

The study of insider trades in the Indian stock market offers compelling evidence that such trades, particularly insider purchases, can serve as useful indicators of future stock returns. Empirical research consistently demonstrates that insider purchases, especially those executed by promoters or controlling shareholders, are followed by positive abnormal returns in the short term, typically within one to three months. These findings are particularly pronounced in smallcap and mid-cap firms, where information asymmetry is higher, analyst coverage is

¹⁹ Tarun Khanna & Krishna Palepu, "Emerging Market Business Groups, Foreign Investors, and Corporate Governance" (2000) 3 NBER Working Paper Series.

limited, and trading volumes are thinner. In such cases, insider transactions act as credible signals of firm undervaluation or positive private information regarding future prospects. Insider sales, in contrast, provide weaker and less consistent predictive signals. Often motivated by personal liquidity needs, portfolio diversification, or tax planning rather than adverse information about the firm, sales generally do not lead to significant market reactions. Consequently, while purchase activity can be leveraged as a short-term indicator of potential stock performance, reliance on sales as a predictive tool is limited.²⁰

The study also highlights several factors that influence the informational content and predictive power of insider trades in India. Firm size plays a key role, with smaller firms showing stronger market responses due to higher information asymmetry. Ownership structure is equally important; concentrated promoter ownership enhances the credibility of trades, as promoters are deeply involved in strategic decision-making and have long-term stakes in the company. Market conditions further moderate predictive power: insider purchases convey more information during volatile or bearish market periods, when external signals are uncertain, compared to bullish or stable conditions. Despite these insights, there are notable limitations to the evidence.²¹ Delays or inconsistencies in trade disclosures, variations in reporting practices across firms, and challenges in distinguishing trades motivated by private information versus personal financial needs can affect reliability. Moreover, methodological issues, such as the choice of event windows, risk adjustment models, and sample selection biases, may influence empirical results. Regulatory changes and technological advances in Indian markets over time also limit the generalizability of historical findings to the present context. Recommendations arising from this study are threefold. First, investors and portfolio managers may consider tracking insider purchase activity, particularly by promoters in small- and mid-cap firms, as part of a broader strategy to identify potential short-term investment opportunities. Second, regulators should continue improving the timeliness, consistency, and accessibility of insider trade disclosures to enhance market transparency and allow investors to make better-informed decisions.

²⁰ Luca Enriques, “The Law and Economics of Insider Trading: A Comprehensive Review” (2014) European Corporate Governance Institute Working Paper.

²¹ Clifford S. Asness et al., “Value and Momentum Everywhere” (2013) 68 *Journal of Finance* 929.

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- 3) SEBI v. Cabot International Capital Corporation (2004) 51 SCL 307 (Bom): Emphasized strict standard of proof and Highlighted enforcement challenges.
- 4) SEBI v. Shriram Mutual Fund (2006) 5 SCC 361: Established strict liability and Mens rea not required for SEBI penalties.
- 5) Chandrakala v. SEBI (2012) 110 SCL 193 (SAT): Clarified “connected person” definition which Focuses on access to information.

- 6) Manoj Gaur v. SEBI (2012) 112 SCL 247 (SAT): Allowed reliance on circumstantial evidence
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