

IMPACT OF BONUS ISSUE ON SHARE PRICES OF THE COMPANIES: A STUDY

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ABSTRACT

Indian Economy is one of the fast growing economies in the world and has witnessed new altitude of growth in the recent times, which has lured the investors both domestic and foreign to show keen interest in making investments in the Indian equities. As per the efficient market hypothesis stock prices incorporate and reflect all available information whether it is past or present and investors react accordingly to any corporate actions instantaneously, explicitly on the announcement of bonus issues which may play a vital role in the fluctuations of share prices. The proposed study attempts to study the impact of bonus announcements on share price. Event study methodology has been conducted on 10 companies listed on NSE belonging to different sectors and having announced bonus issue between the time periods of September, 2016 to February, 2017 (6 months). Random sampling method was used in selecting the companies for the study. Share prices of selected companies 10 days before the announcement of bonus and 10 days after the announcement of bonus were taken for the study and abnormal returns found out. The statistical tool of Paired sample T-test was used to find out whether there is any significant difference between before and after the bonus announcement on the share prices. Through this study it can be concluded that there was no significant difference in before and after share prices of sample of selected companies.

KEYWORDS: Bonus Issue; National Stock Exchange; Stock Dividend; Event Study.

Introduction

The term bonus means extra dividend paid to shareholders in a joint stock company from surplus profits. Bonus shares are free share distributed by a company to its existing shareholders based on the proportion of shares held by them. Issuing bonus shares is a tool used by companies to retain their shareholders for a longer duration. Though the value of ownership of shareholders and value of the company does not get affected, issue of bonus shares increases total number of outstanding shares of the company. Bonus shares are declared when company has sufficient profit to declare dividend but either does not possess cash to pay it or does not want to part with it in order to implement some capital expenditure plans. Thus, bonus shares result in the capitalization of profit of the company. However, it has been debatable whether bonus issue of a company may have an announcement effect on its share price. Shareholders, who are the real owners of a company, should be aware of the impact which is exerted by bonus announcements on share prices and thereafter market movements. In addition, bonus announcements also influences investors decision whether to dispose their shares or hold them back. This study has been conducted to see the impact of bonus announcement on share prices of the selected companies of NSE and whether due to this difference in pre and post bonus issue prices investors can book some abnormal profits.

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